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NEWS SUMMARY

GENERAL

Heavy fighting in the Horn

Somalia and Ethiopia reported heavy fighting in two battles in *the Horn of Africa war.*

Somali forces inflicted heavy losses on the Ethiopian garrison at Negele in the southern region of Sidamo, Somalia radio claimed. Ethiopia countered with claims of successes in the Hararge region, east of Addis Ababa.

It was not clear whether any of the fighting signified the beginning of the much-heralded Ethiopian counter-offensive.

Meanwhile, Mr. Harry Brind, British Ambassador to Somalia, and the ambassadors of the U.S., West Germany, France and Italy, were called in by the Somalian Foreign Ministry and told that Ethiopia, backed by Soviet weapons, was planning to drive Somali troops out of the disputed Ogaden.

Aid from Bonn

West Germany is to make DM53m. available to Somalia this year for financial and technical co-operation under an agreement signed in Mogadishu yesterday, Somalia radio reported. Page 2

Vietnam recalls expelled envoy

Vietnam has recalled Dinh Ba Thi, its chief delegate to the UN after accusing the U.S. of hindering his activities. Last week the U.S. ordered the envoy to leave the country after he had been named as an unindicted co-conspirator in a Vietnamese espionage ring operating in Washington. Cambodia ceasefire call, Page 2

More Concorde services planned

Concorde services are likely to be expanded later this year with British Airways expecting to increase its New York-London flights from 7 to 10 a week and Braniff International seeking to open a service between New York and South America. Back Page

Poles question polling system

Polish dissidents handed out leaflets in Warsaw during local elections yesterday saying the electoral system made the poll meaningless and reminding voters of their rights.

Watching brief

Twenty-five thousand Soviet troops begin five days of manoeuvres in the western republic of Byelorussia to-day watched by British and U.S. observers.

Nato raided

An armed gang overpowered sentries at a Nato base in Bergen-Hohne, West Germany, and seized four machine-guns.

Salazar riot

Mounted police in Portugal last night charged 3,000 demonstrators angered by the removal of a new head placed on a statue of Dr. Salazar by the people of Santa Comba Dao, the former Portuguese leader's birthplace. Later, armoured cars patrolled the streets of this wine town. Page 2

Rig salvage

Compressors and other salvage equipment aimed at recovering the exploratory oil rig Orion from rocks off Guernsey due to go aboard to-day.

Counting wigs

Israel, with 2,500 lawyers for every 1m. citizens, has more lawyers per head of population than any other country, according to the Israeli Bar Association magazine, which rates the U.S. at 2,000 lawyers per 1m. as against only 600 per 1m. in Britain.

BUSINESS

Consumer spending recovery starts

● CONSUMER spending is showing an improvement at last. Stores and consumer services companies interviewed for the Financial Times survey of business opinion said they had seen a rise in consumer spending in recent months and expected the improvement to continue.

Inflation expectations continue to improve. The median forecast for the rise in wage costs in the next 12 months has peaked at about 12½ per cent. The forecast for total unit costs and output prices has fallen to about 11 per cent. Back Page

● MR. CLIVE JENKINS, general secretary of the Association of Scientific, Technical and Managerial Staffs, warns the Government to-day that attempts to keep pay increases down to 5 per cent. in Phase Four of its incomes policy would be viewed as "robbery." Page 4

● TREASURY has been asked by the Cabinet to examine how a special fund for using North Sea Oil revenue might operate in practice. There was increasing support for the proposal in principle at a recent Cabinet meeting. Back Page

Farmers count cost of storm damage

● FARMERS in Scotland are counting the cost of the blizzards which swept their land last week. Scottish Office officials said the number of animals lost "will be frightening when we get it." Page 4

● MERIDEN Motorcycle Co-operative workers have declared their much-publicised productivity deal a failure. Mr. John Nelson, the managing director, said it had not produced the desired result and there was "unease" about the way differentials for skilled workers were calculated. Page 4

● BRITISH STEEL was faced with united opposition to its demanning and productivity plans, when the union leaders of 27,500 craftsmen rejected a package including a 9.5 per cent. increase in pay. The offer was rejected last week by the leaders of 87,000 manual workers. Page 4

● STRIKE by 1,000 Ford press shop workers at Halewood enters its fifth week to-day with little sign of a settlement and fears that the dispute could increasingly affect plants elsewhere. Page 4

Iran budgets $11bn. deficit

● IRAN has unveiled a record $59.2bn. budget which features a deficit financing requirement of $10.7bn. and a sharp rise in infrastructure spending. One diplomat said the size of the deficit showed Iran had dropped its "conservative fiscal stance." Page 2.

● THE U.S. contribution to the International Monetary Fund's $10bn. supplementary credit arrangement is in doubt because of opposition in Congress, which must approve the $1.7bn. American share. Page 2

● AUSTRALIAN Government went to unusual lengths at the week-end to warn speculators that they could get their fingers burned by gambling on any substantial devaluation of the Australian dollar. Mr. John Howard, the Federal Treasurer, pledged the Government would borrow overseas if the currency needed support. Page 2

● BANK OF SPAIN and a group of private banks have decided to establish a special body to take over and administer banks which are in trouble. This is seen as a bid to bolster confidence in banking, which was jolted by the collapse of the small Banco de Navarro in January. Page 2

Pay sanctions will face severe tests this week

BY RAY DAFTER AND PHILIP RAWSTORNE

The Government's sanctions policy for enforcing pay restraint will be severely tested within industry, the Commons and the courts this week.

Two major week-end development were:

1—The John Lewis Partnership, the latest company found to be put on the Government's secret blacklist, of those alleged to be in breach of the pay guidelines, said yesterday it would test the legality of the Government's action;

2—The Confederation of British Industry promised to support its members in their defence against sanctions.

To-day the Court of Appeal will be asked to express a view on the measures which are seen in Whitehall as an essential instrument in the enforcement of pay and anti-inflation policies.

The mounting opposition from industry to the Government's blacklist will reinforce the Conservatives' political attack on the Government's policy in the Commons to-morrow.

But Cabinet Ministers, believe that public opinion is overwhelmingly on their side in the dispute.

Mr. Denis Healey, Chancellor of the Exchequer, said at the week-end that the pay policy was the key to success in curbing inflation.

"Mrs. Thatcher says we should use the taxpayers' money to finance companies which break the pay policy. Yet she opposes Government money for industry when it is to save jobs," he declared.

Mr. Roy Hattersley, Prices Secretary, is expected to press this counter-charge against the Tories when he leads for the Government in to-morrow's Commons debate.

Though the Conservatives have framed their attack on the "misuse of the Government's discretionary powers" in the hope of stirring a revolt among Labour backbenchers, Ministers were confident last night of winning the vote.

The CBI said last night that it would go to the defence of any member which found itself "oppressed" by Government sanctions or union pressure.

A spokesman said: "We dislike intensely the use of sanctions which we believe are inherently dangerous."

Although the CBI supported Government efforts to achieve moderation in pay settlements as a means of curbing inflation, it was against sanctions. These were being watched closely.

Publishing

The John Lewis Partnership is planning to seek legal advice after the discovery that it is one of about 20 companies on the Government blacklist.

Mr. Peter Lewis, chairman, said he intended publishing details of the advice which would be concerned with the Government's right to tell Government and local authority departments not to buy goods or services from a certain company.

The partnership operates 17 departmental stores and 64 Waitrose supermarkets.

The blacklisting has arisen, the company said, because £27,000 a year was added to the pay of about 500 staff in a deal made last March.

The agreement, which broke the Phase Two guidelines, was discussed with the Department of Employment, and the partnership was left with the "clear impression" that no action would be taken, Mr. Lewis said.

John Lewis, which was not told officially of the blacklisting, said that it could not calculate how much business it had lost as a result of the sanctions.

The legality of the Government's sanctions policy is expected to be raised in the Court of Appeal to-day when a Croydon electrical contracting company, Holliday Hall, will re-apply for an injunction against the Electrical and Plumbing Trades Union which last week made official a strike of some 2,000 electricians.

The company will claim that under the threat of sanctions it obeyed Employment Department instructions not to implement part of a recently negotiated national wage agreement.

The case does not directly involve the Government, but the court will be asked to express a view on the sanctions issue. The Department of Employment confirmed yesterday that it would be represented by counsel at the hearing.

The case will be watched closely by the Sun Alliance and London Insurance company which has already said that it will consider legal action if it is forced by the Department of Trade to reduce its premiums.

The Department, which is considering its position, maintains that a pensions agreement implemented by Sun Alliance has fallen foul of the pay guidelines.

Continued on Back Page

Company report reforms attacked

By John Brennan

GOVERNMENT proposals to increase the range and detail of information published in annual reports would impose "an unrealistic burden" on companies, the Confederation of British Industry claimed to-day.

The proposals "would serve to confuse rather than enlighten those to whom reports are directed."

In evidence to the Department of Trade, the CBI dismisses as unnecessary and misleading many of the proposals contained in the Government's Green Paper, The Future of Company Reports.

The confederation argues that it would be impossible to satisfy all potential readers of a greatly expanded annual report.

"The range of interests is so wide, and the legitimacy of their claims to satisfaction so variable, that they cannot and should not be fulfilled by one single means of communication, still less one imposed by company law."

The CBI points to evidence that shareholders "already find it difficult to assimilate" existing reports. It favours a "comprehensible and simple" report backed up by additional information filed later at Companies House.

The CBI does not oppose additional disclosure. But it feels that by making more information compulsory, the Green Paper proposals "would impose a wasteful administrative burden" on companies and that certain classes of information "would provide competitors with valuable confidential material."

Specific

On specific points of the Green Paper, the CBI gives a cautious blessing to the introduction of a Statement of Added Value, and to Statements of Source and Application of Funds.

But it feels that an Employment Statement "could only offer shareholders an incomplete and confusing picture" that would be open to misinterpretation.

The proposals for disclosure of pension commitments are seen as "impractical" if taken literally.

The confederation "strongly opposes" both the Government idea for disaggregation, which would require a breakdown of profits and turnover in each geographical and trading area of a business, and its idea for the obligatory incorporation of a statement of future prospects in annual reports.

On exemption limits, the CBI agrees that companies with 500 or less employees should be outside any new rules. But it believes that the turnover limit should be set at £20m., rather than £5m suggested by the Government.

Carter and Sadat talks continue

BY JUREK MARTIN, U.S. EDITOR

WASHINGTON, Feb. 5.

PRESIDENT CARTER continued his search to-day for the right compromise formula to enable the Middle East peace talks to proceed during his second day of consultation with President Sadat of Egypt.

No hard news has so far leaked out from the negotiations, being conducted in conditions of unusual secrecy at the Presidential retreat of Camp David in the snowbound Maryland mountains about 60 miles north of Washington.

The only announcement of consequence was issued by a spokesman for the National Security Council who denied a report that the U.S. had agreed to an Egyptian request to buy 60 F5E jet fighters.

It is generally thought that the U.S. Government is inclined to favour such a sale, but is acutely aware of the storm of opposition this would create in Congress, which is empowered to block any *foreign sale of military equipment* worth more than $25m.

Since the rupture of Egyptian-Soviet relationships the U.S. has limited its supplies to Egypt to cargo aircraft and other electronic but non-offensive surveillance hardware. Even that deal was pushed through only in the face of tough Congressional opposition, which is always sensitive to the military needs of Israel.

It was unclear exactly how hard Mr. Sadat was pushing his plea for American arms, but it is thought a certainty here that he will have impressed on Mr. Carter the significance which moderate Arab nations attach to such purchases.

The U.S. Administration is very conscious of such arguments, not only in the case of Egypt, but perhaps even more so as a result of Saudi Arabia's request to buy F-15 fighters.

The basic U.S. goal in this round of talks is to get direct peace negotiations moving again. While Mr. Sadat *can* be expected to have urged, Mr. Carter to put more pressure on Israel to make concessions, Mr. Carter, backed by the full weight of his foreign policy advisers, who are also out at Camp David, has probably argued that Egypt, too, must give at least some ground.

In particular, on the thorny question of Palestinian Arab self-determination, Mr. Carter advocates that both Israel and Egypt accept, as a basis from which to negotiate, compromise language in the Aswan Declaration of January 4, issued after the meeting between the U.S. and Egyptian leaders.

In practice the U.S. envisages a joint administration of the West Bank and the Gaza Strip before a Palestinian plebiscite which would ask whether residents of the areas preferred Arab or Israeli hegemony. But the time frame of such a solution has been left deliberately vague.

Withdrawals

The U.S. still hopes that such a formula would allay Israeli fears of imminent creation of a hostile Palestinian State on Israel's borders, while not entirely sacrificing Mr. Sadat's basic demand for Palestinian self-determination.

On the other key matters, especially Israeli withdrawal from the occupied territories, with safeguards, and a cessation of new Israeli settlements, particularly in Sinai, Mr. Carter and Mr Sadat do not appear in substantial disagreement.

One other main purpose of Mr. Sadat's visit, to convince American public opinion that Egypt genuinely wants peace, has been frustrated to date by the privacy of the Camp David talks.

But Mr Sadat will give interviews with the three main commercial television networks during the next two days.

He may also meet Mr. Moshe Dayan, the Israeli Foreign Minister, early this week.

Although ostensibly here on a Jewish fund-raising drive, Mr. Dayan will be able to take the *opportunity, should events so demand,* of countering Mr. Sadat's efforts to woo public opinion in the U.S., which has traditionally strongly supported Israel.

French Left still ahead

BY ROBERT MAUTHNER

PARIS, Feb. 5.

THE PARTIES of the Left are still expected to win the French General Election in March, according to the latest public opinion poll, notwithstanding President Giscard d'Estaing's recent advice to voters to opt for the present Government coalition.

A Louis Harris poll published at the week-end and taken after the President's much-publicised "right choice" speech on January 27, shows that voters' intentions have been virtually unaffected by President Giscard's exhortations. Some 51 per cent. of the electorate still intends to vote for the combined forces of the Left in the first round, only 1 per cent. less than in the previous poll taken in mid-January, while support for the coalition parties has remained steady at 45 per cent.

Translated into Parliamentary terms, the poll's findings would give the Socialists, Communists and other Left-wing groups 255 seats against the Government parties' 236. But that would indicate an overall majority of only nine seats.

While support for the Communists has remained steady at 21 per cent., the Socialists with 26 per cent. have lost one point.

Significantly, the percentage of undecided voters has dropped within one month from 15 to 13 per cent.—thus putting a damper on Government hopes that, as more and more voters make up their minds, the gap between the Left and the coalition parties would be reduced steadily.

The results of the poll can only accentuate the pessimism of the foreign exchange markets. Last week a run on the franc took it back to Frs. 4.92 against the dollar—its level in October, 1977, before the U.S. currency started its sharp slide.

In a speech at Lyon at the week-end, M. Raymond Barre, the Prime Minister, emphasised once again that the only reason for the present weakness of the franc was lack of international confidence in the post-election French political and economic situation.

His remarks are an indication that the Government may not be too unhappy about what is happening on the exchange markets, in the hope that it will give the voters some insight into the economic chaos which, it claims, would be the inevitable consequence of a Left-wing electoral victory.

M. Barre made it clear, however, that the Government would see to it that the fall in the franc exchange rate did not go too far.

Schmidt-Giscard talks, Page 2

U.K. to defeat U.S. tanker plan

BY IAN HARGREAVES, SHIPPING CORRESPONDENT

BRITAIN to-day enters an international conference on oil tanker safety and pollution, reasonably confident that it has sufficient diplomatic support to head off a U.S. proposal, which could cost the world's fleet between $4bn. and $6bn. and increase the price of oil by 2 per cent.

This proposal, for compulsory fitting of segregated sea water ballast systems for oil tankers over 20,000 deadweight tons, will be the main item of controversy during the two-week conference of the UN Inter-governmental Maritime Consultative Organisation, in London.

The meeting was arranged as a direct result of U.S pressure, after accidents involving oil spills and loss of life in U.S. coastal waters in the winter of 1976-77.

President Carter subsequently proposed a wide programme of changes in tanker design, including fitting of double-bottoms in all new tankers over 20,000 dwt and segregated ballast for new and existing tankers in the same range.

The U.S. wants tougher inspection and certification procedures, and more sophisticated radars, steering and collision avoidance equipment on most vessels.

In the year since these demands were made, the U.S. commitment to double-bottoms has weakened and outline agreement seems possible on most other issues. But Britain is leading firm opposition to the segregated ballast proposal.

It is argued that segregated ballast prevents vessels from using oil cargo tanks, for holding sea-water ballast on a non-loaded journey and therefore having to pump out a mixture of oil and water into the sea before reaching a loading port.

Whitehall believes it can muster a 2-1 majority in favour of its position among the 60-odd nations expected to be represented at the conference to-day.

It believes that almost equivalent environmental gains can be made by forcing tanker owners to use two alternative systems, known as crude oil washing of cargo tanks and load on top (whereby oil waste is separated out from sea-water by settlement in the ballast tanks), at little more than a tenth of the cost.

Larger tankers in the fleets of the major oil companies in Britain and America already use these systems and the British package requires either these systems or segregated ballast only for vessels over 70,000 dwt.

Intensive lobbying has been taking place to win support for the differing positions, with Whitehall becoming more confident that it has won the critical support of at least the majority of the Arab oil producing States.

How to clear up the oil mess, Page 27

Begin for Geneva

BY DAVID LENNON

TEL AVIV, Feb. 5.

MR. MENAHEM BEGIN, the Israeli Prime Minister, is to spend a few days in Geneva soon. Last week it was announced that Mr. Dayan, the Foreign Minister, is to go to the U.S. and Europe.

The Israeli Cabinet to-day approved both trips. They have been hastily organised, as fears grew that Mr. Sadat would gain substantial support in response to his appeal for pressure on Israel to make concessions in the Middle East peace negotiations.

● In Algiers the meeting of Arab leaders opposed to the Sadat initiative wound up at the week-end with a rather moderate final communique emphasising its support for the Palestine Liberation Organisation as sole legitimate representative of the Palestinian people.

Immigrant figures offer by Rees

BY PHILIP RAWSTORNE

MR. MERLYN REES, the Home Secretary, yesterday offered to give the Conservative Shadow Cabinet full access to Home Office immigration statistics and challenged the party leaders to spell out their proposals for a substantial reduction in the number of entrants.

"We do not know what it is that the Conservative Party are going to do," he said. "But at the end of the day, there is only one way to deal with numbers on the Thatcher lines and that is repatriation."

Mr. Rees said that Mrs. Thatcher had a responsibility to clarify her position on the issues.

"She doesn't need to wait for a young Shadow Minister to come up with the figures. I am prepared to allow Willie Whitelaw to talk to my statisticians at the Home Office straight away, any time he likes. The whole thing could be done very, very quickly."

Mr. Rees, speaking on ITV's Weekend World, said that points raised by the Tory leader so far would affect immigrant numbers "hardly at all."

Despite some resentment within the Shadow Cabinet at Mrs. Thatcher's emotive attitude on the immigration issue, Mr. Whitelaw, the party's deputy leader and home affairs spokesman, loyally reaffirmed at the week-end, the party's right to open the subject to public discussion.

Only if future control policy were clearly established would the country achieve the right climate for an improvement in race relations, he told the party's local government conference in London.

Criticism of the attitude being adopted by Tory leaders, however, came from Mr. David Wilks, chairman of the Federation of Conservative Students.

Condemning a headline in the party's monthly news-sheet which said "How Many More Immigrants?", Mr. Wilks said: "It is not the role of politicians or the Conservative Party to make sweeping assertions on immigration and at the same time to propound not a single other solution to the very real problems that already exist on our door-step."

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OVERSEAS NEWS

ETHIOPIA—SOMALIA CONFLICT

Both sides report heavy fighting

BY OUR FOREIGN STAFF

BOTH SIDES in the Ethiopian Ogaden conflict have yesterday reported renewed heavy fighting in the area. But it is still unclear if the Ethiopians have begun their much-heralded counter-offensive with the aim of invading Somalia itself.

Reports from the region speak of a large Ethiopian force possibly Russian led collecting in preparation for a major offensive designed to slice the country in two with a drive to the port of Berbera.

U.S. intelligence sources, quoted in the New York Times, say that Cuban pilots flying Russian MiG 21's and 23's are now carrying out raids inside Somalia in a significant escalation of support for Ethiopia.

The sources believe the counter-offensive may still be some weeks off, given the weakness of the Ethiopian forces. But Somalia radio claimed to-day that the counter-offensive had begun throughout southern Ethiopia backed by Cuban and Russian troops.

The Somalis say they inflicted heavy losses on the Ethiopian garrison at Nagele in the southern part of Sidamo during fierce fighting. They claim they destroyed two Ethiopian troop carriers and captured large quantities of rifles, machine guns and ammunition.

Addis Ababa radio quoted the Ethiopian news agency as saying that 70 Somali regular troops were killed and 150 captured in a big probing operation in the Hararghe region carried out by Ethiopian regular troops, militia and "peasant squads." The agency said fortified Somali positions were destroyed and large numbers of Somalis put to flight.

Somalia has denied that regular troops were involved in the fighting maintaining that only guerillas of the West Somali Liberation Front took part.

John Worrall adds from Nairobi: Observers and diplomats here tend to discount reports that the Ethiopians, backed by the Russians and Cubans, plan to make an attack into Somalia proper.

They say it seems unlikely that the Rusians would allow the Ethiopians to open up what is at present a localised war and make it a full-scale international conflict.

Meanwhile, West Germany is making available DM53m. for financial and technical co-operation in Somalia this year under an agreement signed yesterday in Mogadishu after six days of discussions, Somali radio reported.

Rami Khouri adds from Amman: A prominent Eritrean Liberation Front leader said here in an interview that the Ethiopian Government was receiving direct help from Cuban troops in Eritrea and South Yemeni troops in the Ogaden and Eritrea.

Mr. Uthman Saleh Sabbi, president and executive committee chairman of the People's Liberation Forces of the Eritrean Liberation Front said that between two and three thousand "Adenese" were fighting with the Ethiopians—a charge hotly denied by the Ethiopians.

Swapo rally in Namibia dispersed

By Quentin Peel

WINDHOEK, Feb. 5.

A MASS rally being held by the Namibian (South West African) nationalist movement, SWAPO, was broken up here this week-end as envoys from the five western member States of the U.N. Security Council were briefing internal security organisations on their proposals for a constitutional settlement in the territory.

The rally, attended by some 1,000 people, was being held in Kitima, the principal town of the remote north eastern province of Caprivi, and first reports reaching here to-day said it had broken up in confusion after police fired tear gas into the crowd, following attempts by a small number of opponents to disrupt the meeting.

No Australian devaluation Fraser warns speculators

BY KENNETH RANDALL

CANBERRA, Feb. 5.

THE AUSTRALIAN Government has gone to unusual lengths during the week-end to warn currency speculators that they can expect to have their fingers burned in gambling on any substantial devaluation of the Australian dollar.

Yesterday, in an interview with the Sydney Morning Herald, Mr. Malcolm Fraser, the Prime Minister, said there would be no change in the present system of managing the exchange rate, which is a form of managed float.

On Friday, in an interview with "The Australian," Mr. Fraser said the present exchange rate management system had worked well, especially over the past six months, and he was determined to hold the value of the dollar at around its present level.

The series of statements amount to a concerted effort by the Government to end the uncertainty which has built up for several months over the possibility of another substantial devaluation.

Australian foreign reserves at the end of December stood at \$A2,879m., compared with \$A3,500m. a year earlier. The downtrend has continued since, with capital outflow affecting both the stability of the currency and an already tight domestic money supply.

A reversal of the capital flow is important to the Government in fulfilling its recent predictions of a reduction of 2 percentage points this year in the general interest rates structure. It extracted a reduction of 0.5 per cent. from the banks for housing loans last week only after considerable pressure.

Hanoi calls for ceasefire in Cambodia

By Richard Nations

BANGKOK, Feb. 5.

HANOI CALLED to-day for an immediate ceasefire and a peace treaty guaranteed by an "international commission" to end its protracted border war with Cambodia.

However, the call coincided with renewed charges of aggression by Radio Phnom Penh, which reported a major Vietnamese operation supported by "several tanks under aircover of many helicopters and MIG fighters" along the lower Bassac River near the Vietnamese town of Chau Duc.

Hanoi's three-point proposal called for an immediate end to all hostile military activities in the border region, for the armed forces of each side to be stationed within their respective territory 5 kilometres from the border, and for the two sides to meet at once.

Economics to dominate Giscard, Schmidt talks

By Robert Mauthner

PARIS, Feb. 5.

INTERNATIONAL economic problems are expected to top the agenda of the regular six monthly Franco-German Summit talks between President Giscard d'Estaing and Herr Helmut Schmidt, which open here to-morrow.

The West German Chancellor is reported to be anxious to sound out President Giscard on the agenda of the next Western economic summit due to be held in Bonn in July. Their exchange of views is expected to cover the whole range of economic problems, from the international currency situation to the fight against inflation, unemployment and energy questions. In this context, the present difficulties of the U.S. dollar and the French franc will certainly be touched upon.

Another important subject due to be discussed by the two leaders is the proposed enlargement of the European Community and, in particular, the problem that is posed by the exports of Mediterranean produce of potential new members such as Greece, Portugal and Spain.

Though both France and West Germany gave strong political backing to Greece's entry into the Common Market during Greek Prime Minister Constantine Karamanlis's recent tour of European capitals, they continue to have economic reservations.

The French Government is only too well aware that the powerful French farmers' lobby is extremely worried about the competition of such important citrus, olive oil and wine producers as Greece, Portugal and Spain, while the Germans have expressed fears that they will have to foot most of the bill of an expanded European agricultural market.

Spanish moves to bolster small banks in trouble

BY ROBERT GRAHAM

MADRID, Feb. 5.

THE Bank of Spain and a group of private banks have decided to establish a special financial body to take over and administer banks which find themselves in difficulties.

This is seen as an attempt to bolster confidence in the banking system which received a serious jolt following the collapse of a small commercial bank, Banco de Navarra, in mid-January.

The Navarra collapse has already directly affected at least three other banks.

The new entity, yet to be named, will have Pts.500m. capital (\$6m.) subscribed 50 per cent. by the Bank of Spain. The remainder will be held by a varied group of large, medium and small-sized banks. The large banks will be represented by Banesto, Central, Hispano-Americano, Bilbao and Vizcaya; the medium-sized ones by Pastor and Sabadell and the smaller ones by March, Lopez Quesada, Mas Sarda and Internacional de Comercio.

A notable absentee is the large Banco de Santander which last week was negotiating to take over Cantabrico one of the banks affected by the Navarra collapse. Acquisition of the 60 per cent. controlling interest of Cantabrico has been the new entity's first move (on a nominal 1 peseta per share basis).

This acquisition is to be followed by a take-over of Navarra which is currently in the hands of the Bank of Spain which stepped in to guarantee the depositors.

The Spanish banking system which contains over 110 banks, mostly small ones, is currently going through a serious crisis. The problems produced by a credit squeeze and economic recession are taking their toll on the small and badly-managed

The creation of this new caretaker bank, agreed yesterday, suggests that the authorities fear more banks will have to be rescued. Indeed, the new institution was formed with considerable haste.

Slender signs of hope over Italian Government crisis

BY PAUL BETTS

ROME, Feb. 5.

SIG. GIULIO ANDREOTTI, the Christian Democrat President-designate, is to embark on Tuesday on a further and crucial round of talks with the country's other political parties, including the Communists, to attempt to resolve Italy's three-week-old Government crisis.

Over the week-end there emerged some slender signs of a possible compromise between the country's political forces. This follows the decision by the Christian Democrat's central directorate to give Sig. Andreotti a more flexible mandate for his negotiations with the Communists.

Sig. Andreotti is likely to propose to the Communists, whose demand for direct participation in power led to the latest Italian government crisis, an as yet undefined deal to associate them in some disguised form with a Parliamentary majority.

In substance, the Christian Democrats are now proposing the establishment of an interim administration, with Communist support but without direct Communist participation, to serve until the December presidential election. The new administration would have an economic and social programme commonly agreed by the country's main political parties, and guaranteed by a parliamentary commission to include the Communists.

This overture by the Christian Democrats was acknowledged this week-end by the Communists. The Communist Party newspaperß l'Unita, said to-day that it would be "foolish" not to recognise the move as a step forward. The newspaper, however, said the Christian Democrat proposals were "ambiguous and unclear" and that the solution of a protracted crisis would rest on Sig. Andreotti's consultation this week.

Should Sig. Andreotti fail, and the political deadlock persist, the most likely outcome is an early election, which for a variety of reasons neither the Communists nor the Christian Democrats want at this time.

Salazar's home town riots

BY JIMMY BURNS

LISBON, Feb. 5.

PORTUGAL'S carnival week-end was marred by violence to-day when para-military national guardsmen using rubber bullets and cavalry charged over 3,000 demonstrators in the village of Santa Comba Dao, birthplace of the late dictator Antonio Salazar.

The villagers were protesting at a Government decision banning the replacement of the head of a bronze statue of the dictator in front of the village court house. The original statue was decapitated in 1974 by what local opinion took to be Communist vandals.

Yesterday's Government ban, signed jointly by the new Ministers of Justice of the Interior, was provoked by fear that any public demonstration of support for Salazar would lead to violence between Right-wing and Left-wing political groups. Nevertheless, the plan seemed to have back-fired.

Rioting began when local villagers wielding burning timbers and hurling stones rushed local police.

Although Antonio Salazar died eight years ago, his dictatorship was not finally overthrown until April 25, 1974, when a military coup backed by democratic forces sent his successors either into prison or exile. Recently a new cult around the old dictator has emerged particularly among student in secondary schools and among certain extreme Right-wing political groupings.

● With Parliamentary debate on the new package of austerity measures set to begin this week, the Communist-dominated general workers' confederation (Intersindical), which controls 85 per cent. of Portuguese labour, has decided to delay any outright confrontations with the new Government.

At a meeting of leaders of nearly 200 unions in Lisbon yesterday the confederation rejected a motion calling for a day of nationwide strikes and street demonstrations before March 15, when the Government is expected to announce its budget.

Tehran unveils record deficit budget

By Our Own Correspondent

TEHRAN, Feb. 5.

IRAN UNVEILED a record \$59.2bn. budget to-day which featured a massive deficit and a sharp rise in spending for infrastructure. It also includes a \$1.5bn. defence spending increase.

Formally presenting the budget to the Iranian Parliament in a special session Mr. Jamshid Amouzegar, the Prime Minister, said it reflected the Cabinet's mandate to remove development bottlenecks and fight inflation while continuing to ensure economic growth.

However, the size of the deficit financing that is apparently required to do this surprised economic analysts here. "It shows they've dropped their conservative fiscal stance," one diplomat said, referring to the austerity programme that the Shah ordered last year when he named Mr. Amouzegar to replace Mr. Amir Abbas Hoveida, the former Prime Minister.

The budget, which is for the year beginning on March 21, estimates revenue at 4,039bn. rials (\$57.2bn.), which includes the equivalent of \$8.7bn. in domestic and foreign loans.

The budget leaves an unfinanced gap of \$2bn. between revenue and expenditure, bringing the total deficit financing required to an unprecedented \$10.7bn.

A breakdown of the revenue side shows that the Government and state-owned agencies intend to raise \$4.3bn. in domestic loans and \$4.4bn. in foreign loans. Economic analysts said Iran certainly has the means to finance its deficit, which amounts to 18 per cent. of the budget.

Investment in India Page 3

Witteveen fund has problems in Congress

By Jurek Martin

WASHINGTON, Feb. 5.

THE U.S. contribution to the International Monetary Fund's \$10bn. supplementary credit arrangement, known as the Witteveen facility, is in doubt because of opposition in Congress, which must approve the \$1.7bn. American share.

The major problems lie with the House of Representatives, where floor managers of the Bill have been obliged to postpone a critical vote on the issue because of lack of support.

Moreover, there is the distinct possibility that the authorisation will only be approved with conditions attached—such as one which would require the U.S. executive director at the IMF to oppose any IMF loan to a country on the grounds of insufficient observance of human rights needs.

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WORLD TRADE NEWS

Shah agrees major investment in India

BY K. K. SHARMA NEW DELHI, Feb. 5.

THE SHAH of Iran has agreed to supply unlimited quantities of crude to India at OPEC prices and invest the Rupee equivalent in this country on a number of major projects.

These include an alumina project in the eastern coast, a paper and pulp factory in Tripura state and the second stage of the Rajasthan Canal being built to convert desert into rich farmland.

This "crude-for-goods" deal was revealed to-day after the Shah of Iran left New Delhi after a four day visit.

The amount of crude actually made available following this agreement will depend on India's capacity to establish refining capacity and to use the petroleum products.

Since refining capacity is to increase by at around 3m. tonnes this year, it could mean that the agreement will lead to as much as $350m. in investment by Iran in the projects in this year alone. This is certain to increase in the coming years and make Iran a massive investor in India.

In return, a substantial part of the production from the projects will be earmarked for supply to Iran which is thus assured of foodgrain, alumina and paper exports from India in addition to the iron ore pellets from the Kudremukh project in Kanaratska State for which the Shah has already given a $650m. credit.

The food grain to be supplied to Iran from the Rajasthan desert irrigated by the canal financed by the deal will make India a major exporter of foodgrain for the first time.

Exports of foodgrain to Iran are expected to begin before the canal project is completed. These will be made from India's substantial reserves of grain which now amount to around 20m. tonnes and which are causing a storage problem.

The deal also significantly improves trade and economic relations between Indian and Iran and they have agreed to explore other areas, particularly petrochemicals for which a special joint committee has been formed.

The Indo-Iran joint commission is to identify other fields in which the two countries can collaborate.

In talks between the Shah and Prime Minister Morarji Desai, it was agreed that Indian participation in Iranian development will include rural electrification-generation and transmission of power; railway consultancy services, technical assistance, construction of industrial estates—new townships and repair of ships. All this is likely to lead to deals worth several billions of dollars.

But there has been no progress towards the Shah's proposal for a common market consisting of Iran, Afghanistan, Pakistan, India, Nepal and Bangladesh. The proposal was not mentioned i a joint communique.

Israel and South Africa in top level trade talks

BY QUENTIN PEEL CAPE TOWN, Feb. 5.

SCIENTIFIC and technical co-operation, and the growing imbalance of bilateral trade, are expected to dominate the talks to be held this week between Mr. Simcha Ehrlich, the Israeli Finance Minister, and South African Government Ministers.

The visit is the first by an Israeli Cabinet Minister to South Africa, and the first of a proposed series of bilateral Ministerial meetings between the two countries. Mr. Ehrlich will be meeting Senator Owen Horwood, the South African Finance Minister, and Government trade and scientific advisers.

According to Israeli sources in South Africa, a major topic will be an extension of existing joint ventures between the two countries, of which the most important is the operation involving Iscor, the South African parastatal steel corporation, and Koor Industries, its Israeli counterpart, in a smelting plant and rolling mill at Haifa using South African iron ore.

Iron ore accounts for some 60 per cent. of South Africa's exports to Israel, whose other principal components are asbestos and machine parts. However, the Israeli Government is concerned about a deteriorating trade gap between the two countries.

According to the Israeli sources, Israel's exports to South Africa have declined from $34.7m. in 1975 to $26.7m. in 1976 and $20.6m. in the first 11 months of 1977. In contrast, South African exports to Israel have increased from $40.2m. in 1975 to $45.2m. in 1976 and $48.7m. in the first 11 months of last year. Israel's principal exports to South Africa are textiles, machinery and electronic goods.

The talks are likely to reaffirm the programme for increasing scientific co-operation between the two countries, under which regular exchanges of scientists have taken place.

Although there has been widespread speculation that this co-operation includes nuclear research, there has been no official confirmation. Mr. Itzhak Unna, the Israeli Ambassador in South Africa, said five Israeli scientists would be visiting the country this year, including specialists in forestry and animal husbandry, and medical research.

The talks which are due to begin in Cape Town on Tuesday, are intended to result in a convention for the avoidance of double taxation, and it is hoped to renew an agreement permitting South African nationals to invest in Israel.

Civil aviation, with an increasing flow of air passengers between the two countries and fishing, with two Israeli boats in South African waters, are also scheduled for discussion.

The other reported area of South African/Israeli co-operation in military supplies and training is not on any official agenda although it is undoubtedly of great concern to South Africa in the wake of the imposition of a mandatory arms embargo by the UN.

Comecon trade fails the consumer

BY LESLIE COLITT IN HALLE, EAST GERMANY

Eastern European consumers are suffering from stagnant trade between Comecon countries, as the West receives the best of their products.

EAST GERMANY'S trade with other Comecon countries, has doubled in the short span from 1970 to 54.6bn. East German Marks in 1976. But how has this marked increase in intra-Comecon trade affected the range and quantity of goods available to the East German consumer?

The statistics here show that in 1970, East German imports of "industrial consumer goods" from all countries made up 4.5 per cent. of total imports and by 1976 this had risen to only 4.8 per cent.

A stroll through an East German supermarket and other stores in this, the most advanced consumer society in Comecon, reveals the extent to which the East German has benefited from the growth in internal Comecon trade.

Halle, district capital of East Germany's main industrial area, has a population of 234,000. In search of imports from other Comecon partners, we enter a modern supermarket in the main shopping street, the Klement-Gottwald-Strasse.

One of the first imported Comecon products found on the shelves is a can of maize from Hungary. Priced at 2.50 Marks (60p) it is a product one would certainly not have found in an East German supermarket ten years ago. East Germans still regard maize as animal fodder and it will take some time before it catches on here as is beginning to be the case in West Germany.

Boxes of crispbread from the Soviet Union are the next imported item discovered. It is inexpensive at 60 pfennigs (15p) a 270 gram box but the packing is so fragile that when the box is lifted the paper unfolds revealing the contents. Adjoining it are much better wrapped East German knaeckebrot at 55 pfennigs.

Walking up and down the aisles discloses no other Comecon goods until one reaches the frozen food section. Some Polish ducks lie in a rusted freezer thick with ice and emitting a heady odour. This is the fault, though, of the mildewed East German yeast dough dumplings which have escaped from their bags.

The only other imported frozen food in the store is frozen shrimp chips from Vietnam buried under layers of frost. An explanation for this item is that East Germany, as part of its obligations to Vietnam, has contracted to buy a number of products from Hanoi for which there is little East German demand and no attempt to create any.

Over in the spirits and win section of the supermarket, however, Comecon begins to come into its own. There is brandy from Armenia and Georgia in the Soviet Union as well as Hungarian brandy and a half dozen East German branntweins. Bulgaria sends apricot brandies and something called Roza liqueur.

The shelves are filled with white and red wines from Romania, Hungary and Bulgaria leading one to believe that whoever is in charge of wine and spirits imports from Comecon is doing his job.

Everything else in the store, apart from coffee and tea, is autarchically East German, from the meat to the Neuchatel-type cheese. Prices for meat have not risen since the early 1950s and the price list displayed over the counter contains over 60 cuts of meat. On the counter, though, lie a more modest six varieties, all of them well below West German prices. However, the average wage in East Germany is also half that in West Germany.

The overall picture which emerges is that despite its rank as the second largest trading country in Comecon, with a 15 per cent. share of intra-Comecon trade, East Germany has not been able to raise the share of consumer goods it imports. There is enormous demand in East Germany for better quality fresh fruit and vegetables from the Balkans, but little supply.

Bulgaria for example shipped nearly as much fresh fruit to East Germany in 1960 as it did in 1976 and while it exported nearly 2,000 tons of frozen fruit to East Germany in 1960 hardly any in 1976.

The explanation is that Bulgaria in the meantime has found more lucrative markets for its agricultural products in Western Europe. At the same time the Bulgarians have greatly increased their exports to East Germany of fork-lift trucks and electronics which the East Germans are convinced they would be better off making themselves.

Those consumer goods which are imported from fellow Comecon countries are vastly overpriced once the East German Government has taken its share of retail taxes. Simple cassette tape recorders from Hungary, for example, sell for over 600 marks (£150) and Soviet-built colour television sets cost 3,500 marks for models which resemble the first ones sold in the West.

The low priority attached to trading consumer goods by the Comecon countries does not mean that some large quantities are not exported, especially to the Soviet Union. Clothing worth 200m. marks and 70m. marks worth of shoes are shipped annually by East Germany to the Soviet Union. These products are of far better quality than those made in the Soviet Union and they disappear within hours of going on sale in department stores there.

Recently, though, the Russians have begun to get more critical about the alleged poor quality of much of the merchandise they receive from other Comecon countries and they make a point of comparing the goods with those offered for sale by Western countries.

All Easterners know, however, that as soon as they are able to produce a product equivalent to that in the West it is first sold there for hard currency.

Pakistan debt respite

BY SIMON HENDERSON ISLAMABAD, Feb. 5.

IRAN is to reschedule a massive $570m. loan to Pakistan for which the first instalment had been due in June this year.

The Pakistan Military ruler, General Zia-ul Haq, confirmed this expected news to-day at a news conference following the departure of the Shah of Iran who stopped in Islamabad for a few hours on his way home from a three day visit to India.

The loan had been negotiated in 1974 to help Pakistan meet balance of payments difficulties following the escalation in the price of oil. It had been expected to be rescheduled because Pakistan's weak economic condition made it clear that the original terms would have been impossible to meet.

To-day's visit by the Shah was seen mainly as to avoid giving offence by returning home to Tehran direct from Delhi.

Little hope of increase in tanker charter rates

BY LYNTON McLAIN, INDUSTRIAL STAFF

TANKER chartering rates fell again in some areas last week and there was no sign that the depression since January would lift before March.

Figures for tonnage laid-up and idle at January 31 show that the previous fall has been reversed with an increase of 3m. tons recorded over December.

There were 73 tankers and 4 combined carriers over 200,000 tons in lay-up.

Rates for very large crude carriers remained fairly stable. The Worldscale stood at 19.5/20. But last week only 17 vessels over 200,000 tons were chartered, a total of 4.3m. tons.

Even smaller ships were reported by Galbraith Wrightson, tanker brokers, to have "scratched around" for Middle East cargoes, while Socal took a 74,000-ton vessel for Far East discharge, at Worldscale 53½.

In the Mediterranean and West African areas, orders have developed slowly. Hopes that American charterers would increase their importation quotas from the Mediterranean were not realised. Brokers do not envisage any improvements in demand.

Spot fixtures in the principal oil trades range from Worldscale 19.7 for the Gulf/U.K. and the Continent/to Worldscale 77 for the Caribbean/U.S., both figures for dirty conditions. Under clean, the Mediterranean/U.K. and Continent was Worldscale 108.9, and to the U.S. 120.

Full storage tanks were reported to be adequate against the recent severe winter storms in the U.S. and parts of Europe.

London brokers say that the basic activity in the oil market for some months has been that of topping-up already ample stocks in the consumer nations.

Contracts

● **Letraset** has bought a small Italian art transfer manufacturing company, Sodecor, as part of its bid to double sales of its consumer toy products. It has also reached agreement with Gillette to extend a marketing link for the games throughout Europe, including the U.K., and possibly to the U.S. Gillette has signed a three-year rolling agreement with the U.K.-based Letraset to market the games, which involve children putting colour transfers of figures onto a background which is supplied.

● **David Brown Tractors** of Meltham, Huddersfield, has started deliveries on one of its largest orders ever received from Japan—450 farm tractors and 185 front loaders worth £2.5m., not £500,000 as reported last week.

● **The Nigerian Newsprint Manufacturing Company**, which is building a new pulp and paper mill complex at Oku Iboku in the Cross River state of Nigeria, have awarded a £10m. contract to **Black-Clawson International** at Newport, Gwent pulp and paper machinery manufacturers. The order covers two 4.7 metres wide newsprint machines and plant.

● **Badalex** of Weybridge, has won orders for production machinery from lamp manufacturers in Iran, Turkey, Pakistan and Spain. The new contracts total £2¾m. and include operator training and technical assistance in addition to the machine groups.

● **Japan's Hitachi**, will sell three large electronic computers to China in March, with United States' approval, the Asahi Shimbun reported. Hitachi was said to have accepted two conditions laid down by the U.S. government: that the memory capacity of the computers be reduced, and that measures be taken to prevent their being used for military purposes.

● **Toray Industries** and **Mitsui** said they had jointly won a $25m. order from the Soviet Union for a polyester plant capable of turning out 5,000 tons of yarns. The plant will be installed at a textile complex in Minsk, Belorussiya.

● **Turner and Newall**, the Manchester-based friction materials company, is aiming to expand its motor components interests on the Continent with the purchase of FIAAM Filter and Denver Components Italia of Mantova in northern Italy.

● **Societe Nationale Industrielle Aerospatiale** said it will take a 45 per cent. share in a Brazilian company being set up to assemble and make French helicopters. The Brazilian Helibras company is being formed to assemble 30 Lama twin-engined helicopters and the construction over a ten-year period, of 200 Ecureuil helicopters.

World Economic Indicators

UNEMPLOYMENT

		Jan. '78	Dec. '77	Nov. '77	Jan. '77
W. Germany	000's	1,213.5	1,090.7	1,004.3	1,056.3
	%	5.4	4.8	4.4	5.2
U.S.*	000's	6,260.0	6,337.0	6,800.0	7,600.0
	%	6.3	6.4	6.9	7.9
		Dec. '77	Nov. '77	Oct. '77	Dec. '76
Holland	000's	196.8	204.4	208.5	198.6
	%	5.1	5.3	5.4	5.2
U.K.*	000's	1,428.1	1,432.9	1,433.4	1,330.0
	%	6.0	6.1	6.1	5.6
France*	000's	1,120.8	1,054.9	1,100.2	1,036.9
	%	5.1	5.1	5.2	4.7
Belgium	000's	296.4†	296.7	272.6	260.6
	%	11.6	11.4	10.5	10.2
		Nov. '77	Oct. '77	Sep. '77	Nov. '76
Japan	000's	1,030.0	1,000.0	1,050.0	970.0
	%	1.9	1.8	1.9	1.8
		Oct. '77	July '77	April '77	Oct. '76
Italy	000's	1,598.0	1,692.0	1,432.0	777.0
	%	7.2	7.9	6.7	4.0

* Seasonally adjusted.
† Provisional figures.

HOME NEWS

Cost cut expected in raw material

BY MICHAEL BLANDEN

FURTHER SUPPORT for the Government's hopes of bringing the rate of price inflation down to single figures in the spring should be given to-day when the wholesale price indices for last month are published.

The figures are likely to show a further, possibly quite sharp, reduction in the cost of industry's raw materials and fuels as a result of the rise in sterling during the month. The pound's value as measured by the trade-weighted index published by the Bank of England rose by more than 2 per cent. during the month.

The earlier improvement in sterling has already been reflected in a reduction in material costs, which fell by 5½ per cent. between May and December.

This in turn has begun to work through bringing a slow-down in the underlying rate of increase in industry's output prices at the factory gate, which will influence retail prices in coming months.

There is some slight uncertainty over whether this progress will have been maintained as there tends to be some seasonal bunching of output price rises in industry.

The Government's monetary policy will come under scrutiny to-morrow with publication of the latest lending figures from the clearing banks and the official statistics of the banking system's eligible liabilities.

These normally provide a pointer to the movements in the sterling money stock on the wider definition (M3). In the eight months to mid-December, this measure had risen at a rate just above the top end of the official target range of 9-13 per cent. for the full financial year to mid-April.

Barnett faces probe on economic future

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

MR. JOEL BARNETT, Chief Secretary to the Treasury, is likely to be closely questioned by an all-party committee of MPs this afternoon on the prospects for the economy.

Mr. Barnett has been asked to appear before the general sub-committee of the Expenditure Committee which is holding a series of headings on the Government's spending White Paper.

There will be close interest in Mr. Barnett's evidence after the fairly pessimistic assessment of the possible medium-term prospects presented last week to the sub-committee by a senior Treasury economist.

Mr. Frank Cassell, an Under Secretary responsible for medium-term analysis, said that unless there was a marked improvement in industrial performance a 3½ per cent. annual rate of economic growth would leave unemployment above 1m. in 1982 and would mean that the current account would be back in deficit within a few years.

Members of the sub-committee, by their questions, indicated concern about the prospects for unemployment and the current account.

There has also been discussion about the balance between capital and current spending.

Treasury witnesses pointed out the additional current expenditure produced by new capital investment as a partial explanation for the larger cuts on the capital side at a time when current spending was also being restrained.

Meriden deal fails to raise output

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

THE much-publicised productivity deal at the Meriden Motorcycle Co-operative has failed, according to Mr. John Nelson, managing director.

The scheme had not produced the desired increase in output, and there was "unease" within the co-operative at the way in which differentials for skilled workers were calculated.

The co-operative had returned to its egalitarian principles—a productivity scheme would remain in force but any benefits would be distributed equally among the 650 employees. All workers received a basic wage of £58.50 a week.

The productivity deal, effective from the beginning of last month, aimed to introduce differentials for skilled workers for the first time since the formation of the co-operative nearly three years ago. But output has not been high enough to justify bonus payments.

£2m. housing contract

A NEW £2m. housing contract has been awarded by the London Borough of Lewisham to Y. J. Lovell (London), a Lovell Construction company. The scheme consists of 60 single-bedroom flats in four-storey blocks and 89 two-, three- and four-bedroom houses.

Wedgwood display

WEDGWOOD is showing nearly 100 new lines in fine bone china, earthenware, oven-to-tableware, Jasper, crystal and glass at its stand at the International Spring Fair, at the National Exhibition Centre, Birmingham. The last day to see the display is Thursday.

Welsh craft scheme

THE Development Corporation for Wales, the Wales Craft Council and the Wales Trade Centre, Los Angeles, are to introduce a scheme for marketing Welsh craft products through retail outlets in the U.S. The pilot project, to be launched on March 1 in Los Angeles, will involve 19 Welsh craft companies.

3p on pint, claim

MR. WALTER JOHNSON, Labour MP for Derby South, claimed at the week-end that the 2p a pint increase on beer being introduced by some brewers would mean a rise of at least 3p in the pubs. "The brewers are acting in a disgraceful manner and seem to be cocking a snook at Price Commission regulations."

Bid to save company

THE BATTLE to keep the Newburgh, Fife Floorcovering factory out of the hands of liquidators enters a new phase to-day, when a Board meeting of the company's directors tries to organise more financial aid for the concern, given a £700,000 Government hand-out in December 1976.

Dunlop recalls tyres

DUNLOP is recalling about 1,000 tyres after reports of defects. The company said the tyres—for Jaguar and Daimler cars—were a batch of the special size 205-70 VR 15 SP Sport, made during the first week of June last year.

Councillors' pay

THE Association of Metropolitan Authorities has urged the Government to give councillors a basic £1,000 a year, with extra payments for special responsibilities, on the lines of the Robinson report on pay for members of local authorities.

Morale booster

SEX education could be a "powerful counter" to the influence of pornography, according to the National Union of Teachers in a submission to the Obscenity and Film Censorship Committee. It should also encourage "high standards of moral and social behaviour."

Bus fares rise

THE United Counties Bus Company in Northamptonshire increased fares yesterday by between 1p and 6p. Northampton town fares went up by between 1p and 2p.

More ships laid up

MORE than 1m. deadweight tonnage of the U.K. dry cargo fleet was laid up for lack of work at the end of 1977, says the General Council of British Shipping.

Hoover to start expanding Welsh plant next month

BY ROBIN REEVES

BUILDING WORK on Hoover's expansion at Merthyr Tydfil, South Wales, is to begin next month and be completed by the end of next year.

The expansion, with Ford's new engine plant at Bridgend, is one of the two single most important investment projects to be announced in South Wales over the past 12 months.

When completed, it is due to provide up to 3,000 new jobs in an area where high unemployment is being aggravated by closures and redundancies.

The new factory, being built beside Hoover's main plant for washing machines and laundry appliances, will help by drawing redundancies arising from the run-down of steel making at the British Steel Corporation's works at Ebbw Vale.

Discussions with steel unions aimed at accelerating the run-down, in order to try to stem British Steel's financial losses, are already under way.

The buildings for the new Hoover manufacturing complex represent the single biggest investment to date—£10m.—by the Welsh Development Agency.

The main building contract, worth £7½m., has gone to George Wimpey, for the construction of a 270,000 square feet production block, together with another 47,000 square feet of ancillary buildings.

A second contract, worth £1.7m., for the construction of a separate office block and laboratory building, with a basement car park, has been awarded to G. Percy Trentham.

Hoover plans to use the new facilities to produce a new model of washing machine and possibly also dishwashers.

The company is exploring the U.K. market potential for dishwashers with machines imported from its plant in West Germany.

Farmers count cost of snow

FINANCIAL TIMES REPORTER

SCOTTISH FARMERS are counting thet cost of the "white-out" blizzards which swept across their land last week.

They have also been out with their dogs searching snowdrifts for the flocks of sheep and stray cattle lost in the blizzards.

No official estimates have yet been published of the number of livestock frozen or simply smothered in the snow storms, but Scottish Office officials say the total "will be quite frightening when we get it."

Difficulties caused by drifts blocking roads and rail lines have been compounded by the collapse of the telephone network over the worst-hit, more isolated areas of the country.

Helicopters and other rescue services which are commonly called on for transporting animal feed or digging out trapped animals, have been fully stretched this year saving human lives.

Some farmers in the worst affected regions—snowdrifts 20 fet doep are still to be cleared and searched — have already started reporting losses of up to half their flocks.

Provided the snow stays away the first estimates of animal deaths and injuries should be available later this week.

Mr. Bob High, secretary of the Scottish National Farmers' Union, said that farmers would need compensation.

It is not normal for winter losses to be compensated in Scotland, where farmers live all the year with difficult conditions, but this year's disaster is so widespread that Government relief will certainly be needed.

● Hundreds of acres of prime Norfolk farm land, soaked by floods of sea water during recent storms, are unlikely to produce worthwhile crops until at least 1980, according to the local branch of the Country Landowners' Association.

Spending money up 120% over 28 years

REAL PERSONAL disposable income increased by more than 120 per cent. between 1948 and 1976, while personal saving rose from only 1.8 per cent. of personal disposable income in 1947 to 14.6 per cent. in 1976, writes Michael Blanden.

These are some of the comparisons which can be made out of the third edition of the Central Statistical Office's Economic Trends annual supplement, published to-day.

It shows, for example, that the rise in basic weekly wage rates in manufacturing industry between 1956 and 1976 was nearly 390 per cent. But the internal purchasing power of the pound dropped by 78 per cent. between 1948 and 1976.

Average prices of new houses on mortgage rose by over 475 per cent. from 1956 to 1976.

The annual supplement brings together long runs of quarterly and annual data for the key series of economic statistics. Some 300 series are included linked to give continuous runs as far back as possible in the post-war period.

Land 'in grip of bureaucrats'

BY MICHAEL CASSELL, BUILDING CORRESPONDENT

THE GOVERNMENT'S land nationalisation legislation has resulted in a "bureaucratic mess," according to Mr. Michael Latham, MP.

The Conservative member for Melton said in National Builder — the journal of the National Federation of Building Trades Employers — that the Community Land Act and the Development Land Tax had proved of no value to house builders.

Only 33 acres of land acquired under the Act had actually been resold for development in England and Scotland in the first year of operation, while, in the same period, 111 official instructions, orders or documents of advice had been issued — more than three for every acre of land resold.

Over-staffing in offices handling land tax matters was so large that, by last October, only 594 vendors had been found to owe any tax out of 6,500 land transactions, a ratio of one civil servant to every four tax assessments.

Mr. Latham, a former director of the House-Builders Federation, claimed that, although the aim of the Act had been to bring land forward for development in an orderly way and to ensure a reasonable supply of land to the building industry, this had not happened.

At the end of the scheme's first financial year, the total loan sanction for land acquisition in England was just over £24m., of which only £12m. was spent.

This left "a remarkable £12m." unused, all of which promptly lapsed under the terms of a guidance note issued in December, 1976.

Banker urges freedom for private sector

Financial Times Reporter

THE PRIVATE sector needs to to be allowed to breathe, and even to make its own mistakes, if it is to maintain the morale and purpose which are its justification, Mr. Robin Leigh-Pemberton, chairman of the National Westminster Bank, writes in to-day's issue of the bank's quarterly review.

He draws attention to the increasing amount of external intervention, imposing "an enormous burden in terms of cost, senior management time and staff time."

For example, the bank estimated that full implementation of the Consumer Credit Act could mean the issue of "an additional 5m. pieces of paper per annum in the National Westminster Bank" at a time when the aim was to reduce the movement of paper.

Shops 'disfigure' high streets

FINANCIAL TIMES REPORTER

LEADING STORE groups are criticised to-day for helping to "disfigure" high streets throughout the country with their shop fronts.

Kentucky Fried Chicken, Golden Egg, Tesco, H. Samuel, Dolcis, Radio Rentals, Saxone, Dayvilles and McDonalds are rebuked for their "aggressive standard facias" by Designer magazine.

The magazine singles out the companies as examples of the "visual squalor and anarchy" in Britain's high streets to-day, but emphasises that they are by no means the only offenders.

A three-man panel, headed by Sir Hugh Casson, president of the Royal Academy, says that the companies have not adapted their shop fronts to fit in with local architectural characteristics.

The judges also object to over-sized lettering, repetition, and synthetic colours, such as Barclays Bank's cyan blue.

Poll will be tough—Thatcher

BY PHILIP RAWSTORNE

MRS. MARGARET THATCHER called on the Tory Party at the week-end to prepare for one of its toughest General Election contests.

"The coming election is a watershed election," she told a Tory local government conference in London. "The vote could decide what sort of country we are going to live in for the rest of this century."

She expected an October election. The time in which the "Labour trap" could be sprung would be running out after that.

"Not only will the inflation figures be threatening to move up again, the Government will also be running into many of the problems they have postponed, not least on the pay front.

"For my part, October would do fine. I don't think Labour should be allowed to splutter on into the dying days of this Parliament."

Her speech brought an immediate riposte from Mr. Eric Heffer, Labour MP for Walton, who accused her of trying to spread panic among voters.

Surplus on invisible trade 'likely to fall further'

BY MICHAEL BLANDEN

THE SURPLUS on Britain's invisible trade, which has provided a large and generally growing contribution to the balance of payments in recent years, is likely to fall further this year, say estimates produced by stockbrokers Wood Mackenzie.

The brokers say that the invisible trade surplus, which rose to a peak of £2.3bn. in 1976, slipped last year to an estimated £1.7bn.

A marked deterioration in the surplus on interest, profits and dividends, and a rise in the deficit on transfers, last year more than offset a strong improvement in the surplus on services.

Many forecasters argued that it represented only a temporary setback, but invisible trade might have reached a turning point and the surplus was likely to drop again to £1.5bn. this year.

As a result, Wood Mackenzie continue to take a relatively pessimistic view of the overall current account balance for the present year.

The forecast is for a surplus of only £800m. for the current year, against an official expectation of £1.5bn. and higher predictions made by other commentators.

The relatively pessimistic view on invisibles is supported by three main arguments. First, the travel surplus which had been a major factor behind the improvement in the invisibles account in recent years should fall as more U.K. residents travel abroad.

Second, the surplus on interest, profits and dividends was expected to be slightly lower than last year.

Credits should rise as a result of a rise in interest receipts on U.K. foreign currency reserves and a rise in the overseas profits of U.K. oil companies.

But there was expected to be an offsetting rise in debits due to a greater interest burden on overseas borrowing and non-resident holdings of public sector debt, and a rise in North Sea oil profits of overseas companies.

Third, the deficit on transfers was expected to rise as the U.K.'s contributions to the EEC increased.

Work starts on second container terminal

FINANCIAL TIMES REPORTER

WORK on a second container terminal, costing about £600,000, at Garston Docks, Liverpool, has been started by British Transport Docks Board to cater for increased traffic for Northern Ireland.

It is due to be completed in June.

The site for the new terminal, on the east side of North Dock, will cover more than six acres and provide 1,000 feet of quay frontage, with a large back-up area.

Two Liebherr 30-ton container cranes will be installed jointly by the Board and Irish Sea Ferries, which will operate the terminal with the one at Stalbridge Dock.

Demand at the terminals at Stalbridge and North Docks has risen in the past five years from an annual throughput of 25,000 container units to 40,000 last year.

Both docks are used by Irish Sea Ferries, with the recent addition of Unimar Lines' container traffic between Britain and Portugal.

AA dispute may spread

A WORK to rule by Automobile Association patrolmen, telephone and breakdown service staff may be extended, the patrolmen's union said yesterday.

The dispute is over negotiating rights for 1,000 members of the Association of Scientific Technical and Managerial Staff in the AA and has affected motorists in London, Surrey, Hampshire, Dorset, Wiltshire, South Devon and North Scotland.

LABOUR NEWS

Unions oppose British Steel output plans

BY PAULINE CLARK, LABOUR STAFF

THE financially troubled British Steel Corporation was confronted at the week-end with a united front of opposition to its de-manning and productivity plans when union leaders for about 27,500 craftsmen rejected a package, including a 9½ per cent. increase in pay.

The offer, revised from an original 6 per cent. package, was refused last week by the Iron and Steel Trades Confederation, representing 67,000 manual workers employed by the Steel Corporation.

Conditions snag

The craftsmen's meeting was described as adjourned. But no new date for further talks has been fixed.

Negotiators said that they will first press for a meeting with Mr. Bob Scholey, chief executive of BSC.

The sticking point for both groups of workers seems to have been in the conditions of the offer rather than the percentage increase proposed.

The National Craftsmen Co-ordinating Committee, comprising 12 steel industry craft unions, was said to have refused to give certain commitments on corporation demands for co-operation in economies.

Faced with a forecast £520m. loss in the current financial year, the corporation is anxious for union acceptance of measures to raise productivity and reduce manning.

After six hours' talks with the management at the week-end Mr. Eddie Linton, the craftsmen's chief negotiator, said: "We are disappointed at the corporation's attitude."

His committee had made counter-proposals "far beyond anything we have offered before to BSC." These were said to have included an offer of early negotiations on closing certain steelworks.

British Steel is seeking agreement to closure of some high-cost plants and of those in the Beswick Report on the industry, before the planned dates.

No precise figure has been given on the number of jobs likely to be lost, but it has been suggested that it might be about 25,000.

No sign of end to Ford strike

BY OUR LABOUR STAFF

THE PRESS shop strike by 1,000 Ford workers at Halewood enters its fifth week to-day with little sign of progress towards a settlement.

The effects of the dispute could, it is feared, spread increasingly to plants elsewhere in the country.

The dispute, which has resulted in laying off some 10,000 hourly-paid workers, made another 1,500 men idle at the company's Southampton transit van plant before the week-end.

A further 500 are expected to be laid off this week if the strike continues. So far, it is estimated that more than £40m. has been lost in sale-room prices of Ford Escorts.

The strikers, who are disputing productivity and works schedules, expect later this week to hear the outcome of Friday's talks between Mr. Jack Jones, general secretary of the Transport and General Workers' Union, and union officials on whether the strike should be made official.

Meanwhile, at the British Leyland Triumph car plants at Speke, Liverpool, shop stewards plan to meet to-day to fix the date for a mass meeting of 1,800 TR7 strikers.

About 1,500 Dolomite body workers have been laid off in Speke for three months because of the strike, and others have also been made idle in Midlands Domolite assembly plants.

Phase Four 5% bid 'would be robbery'

BY OUR LABOUR STAFF

MR. CLIVE JENKINS, general secretary of the Association of Scientific, Technical and Managerial Staffs, warns the Government to-day that any attempts to keep pay increases down to 5 per cent. in Phase Four of its incomes policy would be viewed as "robbery."

Incomes would improve next year and Government intervention would show an impact only on totally Government-funded operations, Mr. Jenkins said.

He writes in the union's quarterly economic review that merely to restore living standards to the level of three years ago the average wage-earner would need an increase of 23.4 per cent. after the guidelines expire in July.

Those who earned double the average wage would need 35.7 per cent.

Describing the Government's "kite-flying" suggestions of a Phase Four increase of 5 per cent. as totally unacceptable, the article says that incomes policy, in particular the 12-month rule on gaps between individual settlements, would prolong the large cut in disposable incomes, in spite of tax reductions.

Strike settled

THE SOUTH Wales lorry drivers' strike was settled yesterday. The six-day strike by 2,000 drivers over a pay dispute had disrupted industry. Details of the settlement were not disclosed.

Senior staff at ICI win union rights

By Our Labour Staff

THE Association of Professional Scientists and Technologists has achieved full recognition on collective bargaining rights for senior managers in ICI after 12-month talks with the company.

Dr. Maurice Gillibrand, executive secretary of the association, and Mr. James Bell, general manager of personnel at ICI, signed an agreement for full representational rights for the union, in what is believed to be the first agreement of its kind on behalf of members at such senior level in a major British company.

Salaries for senior managers at ICI are upwards of £10,000 a year. The association claims 450 members out of a total 2,000 in the senior grade category, but in the past, has been able to represent them only on an individual basis.

The Executive's and Office World

EDITED BY CHRISTOPHER LORENZ

Barclays Bank: a share deal for employees

The issue of profit sharing schemes in which employees acquire shares in their companies has gained new importance since last Thursday's consultative document from the Government and the decision to provide for such schemes in this spring's Finance Bill. Up to now only a few large companies in the U.K. (of which ICI is probably the best known) have introduced such schemes. Here Sue Cameron explains the Barclays Bank scheme and outlines another at Lucas Industries.

THE BARCLAY'S BANK profit sharing scheme has cost £18m. since its introduction in 1974 but the company reckons that the money has been well spent.

Barclays says profit sharing helps its 55,000 employees to identify more closely with the bank, encourages them to work more efficiently and gives them a greater awareness of the business system in general. The bank also claims that the scheme has helped to moderate pay demands in the negotiating arena.

The profit sharing plan itself is a simple one. A maximum of 4 per cent. of the annual consolidated net profits—before tax and extraordinary items—is set aside to be distributed among the staff in the form of cash or stock. Those earning more than £3,500 have to accept stock although they can sell it immediately if they wish. Those with salaries below £3,500 are normally paid in cash but they can opt to take stock and the bank prefers them to do so.

The amount each person receives is calculated as a percentage of salary. The percentage figure is the same for everyone although it varies from year to year depending on the size of Barclays' profits. In 1974 all staff received 4.5 per cent. of their salaries in cash or stock, in 1975 they received 2.9 per cent. and in 1976 the figure was 4.1 per cent. There is a self imposed salary limit of £25,000 for the purposes of the scheme and earnings over and above this figure are ignored when salary percentages are worked out. Profit distributions are also subject to a maximum limit for any employee of 15 per cent. of his or her salary.

About half of the bank's employees are eligible for a cash payment and the majority of them do opt for a lump sum rather than stock. Of those who receive stock — including some of the lower paid people who can choose—approximately one-third decide to sell.

Uncertain

Barclays does not know exactly how many people choose to sell stock they have acquired under the profit sharing scheme. Working out the numbers is difficult because staff who are recorded as selling bank stock might well have bought all or part of it privately.

Deciding what percentage of annual consolidated net profits to set aside for the scheme involved some nice calculation. Too small a percentage would have made profit sharing pointless; yet if the figure were set too high, employees might come to depend on the extra income and they could then suffer hardship if annual results were poor.

The bank was also anxious that its equity should not become too diluted. To prevent this, it was decided that not more than about 5 per cent. of the issued Ordinary share capital should be available for use in the profit-sharing scheme.

Mr. Roy Vine, general manager in charge of staff, says the ultimate hope is that all employees will become stockholders. But he stresses that the bank does not put any pressure on people to retain the stock they receive under the profit-sharing scheme. Nor does it try to persuade the lower paid to choose stock rather than a lump sum.

"We want everyone to have a stake in the business and of course it does weaken the system if people sell their stock or opt for a cash payment," Mr. Vine says. "But we felt that people earning below a certain level would cash in their stock anyway which is why they were given a choice in the first place.

"It should also be borne in mind that many senior staff, who have to accept stock, have had a fairly rough time over the past few years because of inflation and pay restraint, and it is therefore understandable that some of them should have decided to sell."

Opportunity

Mr. Vine points out that the opportunity for staff to accept—and keep — stock is repeated every year. Barclays hopes that as the economic situation improves more people will do this.

"I think people are already identifying more closely with the bank as a result of the profit sharing scheme," Mr. Vine says. "The staff are more interested in how much profit we make and they are keener to compare one year's results with those of the previous year. Some of the bank messengers can be seen looking up share prices and I'm sure this is because they themselves are now stockholders.

"The profit sharing system acts as an incentive scheme — though not on a day-to-day basis. Staff don't come in in the morning thinking they must work all out so as to increase profits and push up their own share of them. The money or stock they are going to receive next year is too remote to affect the amount of effort they put in to-day.

"But profit sharing does make employees more aware of things like costs and senior staff in particular are now taking extra care to avoid waste and to keep expenditure to the minimum.

"The scheme will be reviewed after it has been running for ten years, but so far we have found no real disadvantages. It was introduced with the support of the staff association and of the National Union of Bank Employees; and the administrative costs of profit sharing are not significant."

The one thing Barclays would like to see is a tax concession for employees who receive and keep stock. At present all staff pay tax at the normal rate on the profit shares they receive. It was because of the introduction of a "penal rate of tax" that Barclays has not implemented a stock option scheme which was devised at the same time as the profit sharing system and accepted by shareholders at the same extraordinary general meeting.

Under this scheme the 600 or so most senior bank employees would have been able to buy an option on ordinary bank stock for a nominal sum. They would have been able to take up the option between three and seven years later—at the stock price prevailing when they first bought the option.

The stock option scheme would have involved some element of risk to those who decided to participate because the stock price could fall over a three year period. And those eligible, including several hundred branch managers, would have had to choose between the stock option scheme and the profit sharing plan. They would not have been allowed to participate in both. On the other hand, the rewards, when stock prices rose, could have been considerable.

Barclays would still like to bring in its stock option scheme if the tax regulations were changed. There are two main reasons why it would be limited to senior staff; Barclays, in true paternal banking style, would not like lower- and middle-ranking employees to be exposed to financial risk; and in any case, people on lower salaries simply would not have enough money for the stock option scheme to be worth while.

Mr. Vine reckons that profit sharing and stock option schemes probably work best if the participants are white-collar employees. At present there are few manufacturing companies which have brought in schemes of this type. One of those which has is Lucas Industries, manufacturers of motor components.

Yet the Lucas share ownership scheme, begun 12 years ago, is limited to supervisory and managerial staff. Those who are eligible are given an annual bonus in the form of shares. The value of the shares each person receives varies from year to year, depending on the company's performance.

Two years ago Lucas introduced a share option scheme. This is open to shop floor workers as well as supervisors and managers, but to be eligible an employee must have completed ten years' service with the company. The Lucas share option scheme is slightly different from the one planned by Barclays.

The idea is that an employee can put up to £60 a months into a Save As You Earn scheme with a named building society. After doing this for between five and seven years he can then use his building society savings to buy the shares alloted to him when he first joined the scheme. And he can buy them at the price prevailing in 1976 when the rights issue was made—188p.

Mr. Vine of Barclays believes there will be a great increase in the number of companies running profit sharing and stock option schemes during the next few years—particularly profit sharing systems.

"Companies are introducing more consultation and participation for their employees and I think this in itself must lead to an increase in profit sharing schemes. It is almost inevitable.

Persuasion

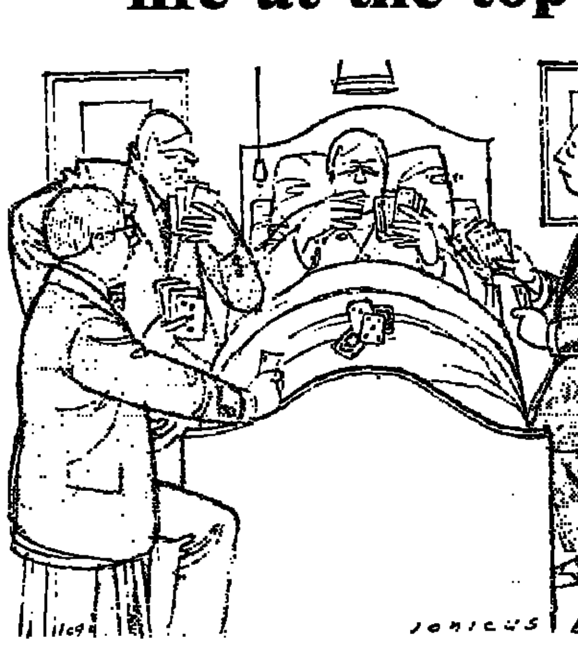
"And if we want a share owning democracy—if we want to extend company ownership to workers—then we must do it by introducing the kind of profit sharing scheme we have at Barclays.

"But if such schemes are to be more than simple productivity deals then a way must be found to persuade employees to hang on to their company shares. One way would be through tax concessions."

EXECUTIVE HEALTH

BY DR. DAVID CARRICK

Keeping intelligent life at the top



"'They was a playin' cards. . . .

HOW DOES one define intelligence? Many erudite people have attempted to meet that challenge. Of their numerous definitions the one that interests me most is that: "Intelligence is the ability to behave in a unique way under novel circumstances."

However, that lacks comprehension and I am more happy with the OEDS description: "The faculty of understanding," which I find more suitable and succinct. A picture begins to emerge from that and makes one appreciate that an *intelligent* individual differs from one who is merely clever.

Obviously it is possible for an individual to be clever *and* intelligent; but too often the separate qualities dwell a world apart. Now, a computer (which is but an electronic extension of a clever man) is amazingly clever but in no wise intelligent.

Even the ability to master many languages does not necessarily indicate intelligence: after all, some budgerigars, with their tiny, primitive brains can speak whatever language their owner speaks, be it English, Spanish or even Chinese. As for arithmetical ability, I once had a patient who was, in those days, called an "idiot savant," but now would be described as "a severely educationally subnormal person with special attributes." Anyway, Joe, who could neither dress nor feed himself, was able within seconds of being told a stranger's date of birth, to state the day of the week when he was born: and he was never wrong. He also memorised every nurse's duty hours for an entire year, something the staff found very useful.

Intelligence tests are much criticised. Yet, when applied properly, many of the older ones are valuable guides. Properly, is the operative word. For example, if one applies an IQ test devised for one particular race and culture, to someone of a totally different race and cultural background, the result must be unacceptable.

Again, an allowance for age must be made. In a limited-time test, to the simple question: "What is one and one?" the 18-year-old will put "two" and hurry on to the next question. The 30-year-old, with much more experience of life, will regard the question as suspiciously easy and look for a catch. Now, "one and one" *could* be 11. Eventually he puts the right answer, but his hesitation has cost him time, and therefore, marks.

I used to have to carry out 30 I.Q. tests a week during a tiresome period in my career. Some answers I was given were truly marvellous. The book was American, and one of the questions ran thus: "Yesterday my neighbour had unusual visitors. First a doctor called; then an attorney (solicitor, lawyer etc.); then a minister (priest, clergyman, rabbi etc.). What do you suppose was happening?"

Without hesitation, one lad said: "Well. I reckon they was a playin' cards. You see, Sir, they'd got a foursome, 'adn't they?" Quite improperly I awarded him a few more marks for amusing me. Another brightened my drab life with crude logic. I asked him if he had heard of Ireland, and he nodded. "How far away is it?" I asked. "A tidy while," was the answer. "Could you bicycle there from here in Essex?" I enquired. "Certainly, Sir, I'm very good on me bike." So I asked him whether this would present problems. "No, Sir," he said. "I'm good on me bike. Got it outside. Want to watch me?"

I declined the offer and pursued the matter with the question "Don't you think you'd get a bit wet on the way?" He gazed at me incredulously. "For Gawd's sake, Sir," he exclaimed, "I'd take me mac, of course! I ain't a fool, you know!"

At this point, some may be asking just what all this has to do with executive health. Plenty; because a valuable mind is just as important as a sound heart, and should be of great importance to management with selection. First one must presume that top people are themselves intelligent. This means that they are always ready to learn: to possess understanding; and are capable of listening to the views of employees of any rank: in other words, they must be endowed with the many facets of humanity and not just one outstanding attribute as blinding to others as to themselves. In short, they must have wisdom, which is a distillation of intelligence and experience. Then they are capable of placing those of differing abilities correctly; and also to be able to recognise the intelligent and thence groom them for succession.

In this way only does an enterprise deserve to flourish perdurably, instead of enjoying a comet-like existence, blindingly brilliant when rising, but a rapidly dying liability, whose glittering tail may yet cause damage long after the driving force has lost its ephemeral and meretricious magnificence.

Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

● COMMUNICATIONS

Laying cable to the North Sea rigs

DOWTY and the Marine Division of the Post Office have collaborated in the design and development of uncomplicated, portable cable laying equipment that will allow offshore operators quickly to lay both cable and flexible pipeline between rigs and to the shore.

This will avoid the need to bring in big, dedicated cable-laying vessels since the laying equipment can easily be installed in or removed from a much smaller unit such as a supply boat.

Machines have already been built for the P.O. and the French manufacturer Cables de Lyon. Now, Dowty Offshore is promoting its equipment with the North Sea production companies who will undoubtedly find many applications for it.

As now specified, the equipment is made up of just two sections: the laying wheel arrangement and the power pack. Weights have been kept as low as possible and the wheel pack, which regulates cable tension, comes to 4½ tons while the hydraulic power unit weighs 2.5 tons. An even lighter system is under development.

Traction to cable or flexible piping is applied through rubber tyred wheels driven by hydraulic motors. This allows the equipment to compensate for changes in cable diameters and the wheel module can have any number of wheel pairs running up to maximum cable diameters of 14 inches.

Cable tensions of three tons and laying speeds of 4 knots can be achieved, but provided lower tensions are acceptable, paying out can take place much faster and the cable will still be handled gently and with minimum damage.

This is one of the first of Dowty Offshore's products. It also is working on fuel systems for platform gas turbines, switchgear for subsea control and precision hydraulics for subsea use.

Dowty Offshore, on Cheltenham 21411.

● SHIPPING

Fuel saving on ships

REDUCED OPERATING costs are claimed for a ship's power generating system developed by Mitsubishi Heavy Industries for use on the main shaft of vessels with fixed pitch propellers.

This concept is readily feasible for ships with controlled pitch propellers, when the speed is changed by altering the pitch while the shaft speed remains constant. It is more difficult with fixed pitch propellers, since the shaft speed has to be altered to change the vessel speed, causing frequency changes in the generated current.

The Japanese system has an alternator on the main shaft, the current from which is first fed to a rectifier for conversion to dc and then to a thyristor inverter for reconversion to ac at constant frequency and voltage, irrespective of changes in speed. The company says that the system generates the rated output at a constant frequency even when the rpm of the main shaft varies between 80 and 110 per cent. of the rated revolutions.

The system can also provide an output proportional to the rpm of the main shaft at a constant frequency when the revolutions drop to 60 per cent.

At least one auxiliary generator has to be installed to provide stand-by power in emergencies, such as "crash astern" or accidental stopping of the main engine—the ship's inertia is stated to maintain sufficient driving power for the main shaft generator to continue producing current while the demand is transferred to the auxiliary generator.

During normal sailing, the shaft generator alone can provide sufficient power to meet the ship's electrical demands, with resultant savings in the fuel required to run a separate generator. The system can be installed on fixed pitch propellor vessels already in service.

Details from Mitsubishi Heavy Industries, 5-1 Marunouchi 2-chome Chiyoda-ku, Tokyo, Japan.

● HANDLING

Powerful fork truck

INTENDED PARTICULARLY for Ro-Ro operators, the first large capacity fork lift truck introduced since the Lansing Bagnall/Henley merger is a 25 tonne front loader.

Optional is a reverse driving position and the carriage is designed to take a range of quick release attachments, including powered fork spread, and both side lift and top lift beams, to handle fully laden six-metre ISO containers.

The truck offers full load capacity at 1.2 metre load-centre, and 6.1 metre lift. Powered by a Perkins V8 diesel engine developing 170 h.p. at 2,500 r.p.m. it has power shift transmission with four electrically-selected speeds forward and reverse. Out side turning radius is 5,880 m.m., and height over the load-guard is only 2,850 m.m. Top speed loaded is 20 k.p.h, and unloaded 30 k.p.h. Lift, tilt and steering are hydraulic.

The cab, fitted with sliding doors, is insulated and mounted on resilient bushes to keep noise and vibration to minimum—air conditioning is optional.

More from Lansing, Kingsclere Road, Basingstoke, Hants. (0256 3131).

Presses metal into bales

REPLACEABLE SHEAR blades with four edges, and replaceable liner plates, are features of the latest alligator type bales for non-ferrous metals from J. McIntyre (Machinery), Acorn Park Industrial Estate, Harrimans Lane, Dunkirk, Nottingham (0602 866657).

Bale size is 10 x 20 inches (length is variable). Shear lid compression force is 24 tons, while the horizontal ram compactor exerts 80 tons on a loading box measuring 20 x 20 x 48 inches. Hydraulic working pressure is 2,250 psi, provided by a 15 hp motor. The machine weighs about 4½ tons. A wheeled version is available as an optional extra.

Dry cycle time, lid open to lid open, is 60 seconds. The machine is also capable of baling ferrous metal (new steel swarf, etc.), or thin stainless steel sheets, although the maker recommends special hard-wearing liners for these duties.

● INSTRUMENTS

Close look at fluid flow

BREAKING NEW ground in the U.K. instrument industry is Prosser Scientific of Ipswich with the announcement of an advanced hot-wire anemometer system.

With the aid of a £100,000 loan from the Department of Industry and the Ministry of Defence, Prosser has brought to the market an instrument aimed at those carrying out detailed fluid flow investigations in the aero, civil and hydraulic engineering fields.

Most of the effort has gone into the electronics signal processing that follows the hot-wire head and its modular arrangement means that only the needed measurement facilities need be purchased.

Measurement technique is based on a heated fine wire probe in the fluid stream which tends to be cooled by the flow; in fact, the probe is an arm of a bridge circuit and by varying the power to the bridges the probe temperature, and so its resistance, is kept constant and the bridge remains balanced. The necessary voltage changes at the bridge ends are then directly related to the flow. The new Prosser instrument can deal with changes up to 300 kHz.

To take into account the working temperature of the fluid and its nature, the operating temperature of the probe can be directly set as "percentage overheat" without upsetting the basic setting of the bridge.

The electronic unit is two channel as far as the display section; the latter is single channel but is both analogue and digital and is able to add or subtract the two channel signals.

In each channel an automatic or manual lineariser can be inserted; this is a polynomial device with terms up to the fourth power, the coefficients of which are, in the first case, determined automatically by a microprocessor or are manually inserted after calculation, in the second case.

A signal conditioner module can follow in which bandwidth limiting and gain adjustment (for properly feeding peripherals such as recorders) can be carried out.

More about the equipment, known as the PSI 6000, from Lady Lane Industrial Estate, Hadleigh, Ipswich IP7 6DQ (047338 3005).

Avometer is digital

ALTHOUGH still heavily committed—perhaps inevitably in view of a background extending back to 1926 — to the analogue moving-coil based meter, Avo nevertheless feels the need to gain a strong foothold in the digital multimeter market and has just introduced a new model, the DA116.

A previous introduction in 1972 had a Nixie tube display and although highly accurate and easy to use it was basically mains operated with only a short battery life available from rechargeable cells.

The new instrument has 13mm high liquid crystal display and works from four torch batteries with a claimed duration of 500 hours.

Internally, large scale integrated circuits are used; a single LSI unit is employed for example for the analogue to digital conversion, performed by dual slope technique with automatic zero correction. The design is mechanically similar to that of analogue instruments; range selection and function switching are both carried out by rotary click-stop controls reminiscent of previous "Avos." All the measurements except the 10A range are via a pair of sockets on the front panel.

Both ac and dc voltages can be measured from 200 mV to 1,000 V full scale, current from 200 microvolts to 10 A full scale. In all cases the actual maximum indication is 1,999.

A useful convenience when making repetitive resistance readings is the "high speed ohms range," in which the response time of the instrument is reduced by a factor of ten. There are also six normal resistance ranges giving high accuracy measurements up to 20 megohms. In addition, diode and transistor junctions can be tested under forward or reverse bias, the display indicating the voltage drop across the junction for a nominal current of 0.5 mA.

More from the company at Archcliffe Road, Dover, Kent, CT17 9EN (0304 202620).

● OFFICE EQUIPMENT

Fiche can be updated

MAKING its debut in the U.K. is a document recording system in which the microfiche can be updated by subsequent exposures over a period of 25 years.

Offered by A. B. Dick and developed in the U.S. by A. B. Dick/Scott, System 200 uses film developed by Scott Graphics in which a fine aluminium-based layer is sandwiched; no silver chemistry is involved and the film is insensitive to ambient light.

The process used is similar to xerography. The film, which is photosensitive, is electrically charged and then exposed to the image which discharges all but the image areas through the aluminium layer. A carbon toner is deposited on the surface, adhering only to the image areas and then directly sealed into the mylar surface using a short flash from a powerful discharge tube. The whole image recording cycle lasts about eight seconds.

System 200 is the first true microform analogue of the paper file folder, or so its developers say. In addition to the traditional advantages of maintaining active records in microfilm, it provides the same flexibility as paper files by allowing instant updating, random structuring and interleaving of documents plus annotation of existing images.

The equipment uses a film size of 105 x 148mm, accommodating 60 pages plus title, 72 if the reference title area is used. Largest original that can be dealt with is 229 x 356mm (up to 6mm thick) and a book attachment is available. The reduction ratio is 25:1 and the resolution is 125 lines/mm.

Not much more difficult to use than an office copier, the machine normally works in a step and repeat mode; however, with the use of a keypad the next image can be placed anywhere on the film area. Interlocks prevent the accidental placing of one image over another; but by pressing two buttons at once it is possible to annotate the existing image, or overprint words such as "void" or "superseded."

More about the fiche recorder, which measures 1,520 x 740 x 740mm and weighs 295 kg., from 88, High Street, Brentford, Middlesex TW8 8BA (01 568 8899).

● SERVICES

Keeps watch on light and heating

CENTRALISED building services control is being offered by Honeywell under the name Boss, applicable to buildings 100 feet or 100 miles away from the Boss control base.

This means that building managers can leave the control of lights, heating and ventilation, plant surveillance and alarm initiation to the service which operates remotely over post office lines connected to appropriate sensors installed in the buildings to which the service is being provided.

Services operate round the clock all the year and there can be very few cases where savings on light and heating will not almost immediately pay off the rental for the service, which can be as low as 50p per hour.

Because users of Boss can draw on work Honeywell already has done to match heating needs with outside temperatures and the schedules of office and/or factory buildings, it is possible to use the system to achieve savings in energy usage in the average building of around 15 per cent. or better.

At the same time, many users are linked into the centre and thus share its costs so that individual charges can be reduced.

No site has yet been chosen for the first Boss centre in the U.K. though it will be in the London area. The heart of the operation will be a computer-controlled Delta 1000 building control unit which supervises all the important parameters of the buildings in its care and provides a complete log of all data coming from the sites and all action taken.

Further details of Boss from Honeywell on 0344 24555.

● PROCESSES

Powder put where wanted

AUTOMATIC AND semi-automatic equipment for the pollution-free application of powder to individual or continuous process products has been developed by Chandor.

Typical applications are in plastics and rubber where products need an "anti-tack" coating to prevent them sticking to one another.

The machines require electricity, and air at 10 psi (50 psi on the larger versions). Generally a maximum of 30 inches of production line length is required, and a width of 18 inches greater than the widest product to be powdered.

Powder such as talc, is drawn from a reservoir and sprayed through dust-guns. Excess powder is removed by brushes and recirculated, while reduced pressure within the dusting chamber prevents powder escaping to atmosphere. Machines for products from 12 to 96 inches wide are available.

Details from the maker at Station Road Industrial Estate, Hailsham, Sussex, BN27 2EU (0323 842787).

● WOODWORKING

Versatile panel saw

DEVELOPED BY Kikukawa Iron Works, of Japan, and now available in the U.K., is a digitally controlled high-speed panel saw, which not only rips and cross-cuts simultaneously, but can be programmed to provide accurate headcuts as well.

The standard machine incorporates five rip saws, three of which are fitted with jumping equipment and vertical adjustment. All but the right hand saw also include lateral adjustment. Cross-cutting is by a flying saw, which rises and falls. During cutting, the material is held by air operated clamps.

The rip saws can be set to provide panels varying from 220mm upwards in width, and the cross cut saw can be programmed to cut up to three different lengths in sequence, repeating up to ten times within the length of a single sheet of material. The standard machine handles boards or packs up to 1300 x 2500 x 400 mm thick, but larger versions can be built.

Marketing in this country is by Riverlock, Moneyrow Green, Holyport, Maidenhead, Berks., SL6 2ND (0628 37648).

CONTRACTS AND TENDERS

Republic of Zaïre

SOCIETE D'ETAT

GECAMINES

Notice of international invitation to tender

12.000 M OF RAIL TRACK EXTENSION

INCLUDING THE FOLLOWING EQUIPMENT:

1.	Rails 40 kg/m - length 12 m	2.000 pieces
2.	Steel sleepers with splay ends - length 2 m	16.000 pieces
3.	Steel sleepers with non splay ends - length 2 m	2.000 pieces
4.	Fish plates	4.000 pieces
5.	«M» clips	41.000 pieces
6.	«N» clips	41.000 pieces
7.	Fish plate bolts	8.000 pieces
8.	Clip bolts	72.000 pieces
9.	Rail anchors	72.000 pieces
10.	Turnouts in 40 kg/m rails mounted on steel sleepers :	67 assemblies

★

Finance provided by loan arranged by Gecamines in conjunction with World Bank (IBRD)

★

Firms interested in tendering for this project should write or telex, within one month for project specifications to

Société Générale des Minerais

DIVISION ZAIRE
Réf. APP. 23/DV.
31, RUE DU MARAIS — 1000 BRUXELLES — BELGIQUE
TELEX n° 23.518

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

INVITATION TO TENDER

The Government of The People's Democratic Republic of Yemen (PDRY) expects to enter into a loan Agreement with the Kuwait Fund for Arab Economic Development in participation towards the cost of construction of Riyan Airport near the City of Mukalla.

Qualified International Contractors are invited to bid for the construction of the Airport.

Tender Documents can be obtained as of 1st of February, 1978 against a non-refundable charge of U.S.$3.00 (U.S. Dollars Three Hundred) from:

Civil Aviation Department,
Ministry of Communications,
Aden, P.D.R.Y.

or from: Dar Al-Handasah Consultants,
(Shair & Partners).

in London: 91 New Cavendish Street,
London W1M 7FS,
England.

in Beirut: Verdun Street,
Dar Al-Handasah Bldg.,
P.O. Box 7159,
Beirut, Lebanon.

Tender Documents should be simultaneously returned duly completed to The Secretary, Central Tenders Board, Ministry of Finance, Aden, P.D.R.Y. on/or before April 15, 1978 and as instructed in the Tender Documents.

"SARAJEVO-GAS"

Organizacija udruzenog rada za transport i distribuciju gasa
—u osnivanju—
("SARAJEVO-GAS" Enterprise)
Sarajevo, Yugoslavia

and

"NAFTAGAS"

Kombinat naftne industrije "GAS"—Radna organizacija transporta, prerade, primene i prometa gasa
—sa solidarnom odgovornoscu—
("NAFTAGAS" UNIT OR NGU)
Novi Sad, Yugoslavia

Renew

the ADVERTISEMENT

for inviting Bids for delivery of equipment and material for the construction of GASLINE of cca 265 km BATAJNICA-ZVORNIK-SARAJEVO published in JAPAN TIMES, NEW YORK TIMES, DIE WELT

Suppliers from member countries of International Bank for Reconstruction and Development and from Switzerland with good business status and experience of at least five years in the production and delivery of the subject equipment and material, which are able to obtain the guarantee from a renowned World bank, are herewith invited to submit their Bids for delivery of the following equipment and material:

Equipment and Material		Un. Price of Tender Document in US$
Tender No. 1	Pipes	800
Tender No. 2	Valves	100
Tender No. 3	Flanges, insulation pieces and fittings	100
Tender No. 4	Coating and wrapping material	200
Tender No. 5	Launching and receiving traps	200

Tender Documents can be obtained from SARAJEVO-GAS starting from 16th January 1978 with previous payment of the above amounts effected.

Payments are to be effected to the account of SARAJEVO-GAS No. 10102-620-16-3096-829 with PRIVREDNA BANKA SARAJEVO, Sarajevo Branch Office, Yugoslavia

Your money order should mention full name and address of the payer and also number of Tender for which the payment has been effected. The bids shall be received not later than April 6, 1978 by 12 o'clock local time.

Bids are to be submitted in quadruplicate to the address:

SARAJEVO-GAS
Organizacija udruzenog rada za transport i distribuciju gasa
—u osnivanju
71000—SARAJEVO, Yugoslavia
Ul. Slavise Vajnera Cice 2/II

YEMEN ARAB REPUBLIC HIGHWAY AUTHORITY

AL HUDAIDAH - YEMEN/SAUDI BORDER ROAD PROJECT

The Highway Authority of the Yemen Arab Republic invites Tenders for the construction of the Al Hudaidah - Yemen/Saudi border road with an asphaltic concrete pavement. The road which is located in the northern part of the Yemen Arab Republic is approximately 204km in length and traverses through flat and rolling terrain. The project is financed by the Saudi Fund for Development, Riyadh, Kingdom of Saudi Arabia.

The work is to be completed in 1,300 consecutive calendar days commencing about mid-1978.

The Tender Documents can be purchased from 15th February 1978, from the below given address, at a non-refundable price of U.S. Dollars 500 per set, to be paid in cash or by cheque drawn in favour of the Highway Authority, Yemen Arab Republic.

Highway Authority
P.O. Box 1185
Sanaa
Yemen Arab Republic
Cables: TOROKAT, SANAA
Telex: 208 ASHGAL YE, YEMEN

The interested Tenderers should send their requests to the above address and should personally collect the documents. Tenderers shall submit their Tenders duly signed and completed to the Chairman of the Board of Directors, Highway Authority, P.O. Box 1185, Sanaa, on or before 12.00 noon (local time), on 17th April 1978.

YEMEN ARAB REPUBLIC HIGHWAY AUTHORITY

SADAH - YEMEN/SAUDI BORDER ROAD PROJECT

The Highway Authority of the Yemen Arab Republic invites Tenders for the construction of the Sadah-Yemen/Saudi border road with an asphaltic concrete pavement. The road which is located in the northern part of the Yemen Arab Republic is approximately 79km in length and traverses through mountainous and rolling terrain. The project is financed by the Saudi Fund for Development, Riyadh, Kingdom of Saudi Arabia.

The work is to be completed in 1,100 consecutive calendar days commencing about mid-1978.

The Tender Documents can be purchased from 15th February 1978, from the below given address, at a non-refundable price of U.S. Dollars 250 per set, to be paid in cash or by cheque drawn in favour of the Highway Authority, Yemen Arab Republic.

Highway Authority
P.O. Box 1185
Sanaa
Yemen Arab Republic
Cables: TOROKAT, SANAA
Telex: 208 ASHGAL YE, YEMEN

The interested Tenderers should send their requests to the above address and should personally collect the documents. Tenderers shall submit their Tenders duly signed and completed to the Chairman of the Board of Directors, Highway Authority, P.O. Box 1185, Sanaa, on or before 12.00 noon (local time) on 18th April 1978.

YEMEN ARAB REPUBLIC (Y.A.R.) NATIONAL WATER AND SEWERAGE AUTHORITY

RE PREQUALIFICATION OF TENDERERS FOR CONSTRUCTION OF WATER SUPPLY AND SEWERAGE IMPROVEMENT PROJECT FOR TAIZ, Y.A.R.

Your attention is kindly requested for extending the date of submission of required information up to February 21, 1978 instead of January 31, 1978.

LEGAL NOTICES

No. 00340 of 1978

In the HIGH COURT OF JUSTICE Chancery Division Companies Court. In the Matter of YORKCLADE LIMITED and in the Matter of The Companies Act, 1948.

NOTICE IS HEREBY GIVEN, that a Petition for the Winding up of the above-named Company by the High Court of Justice was on the 1st day of February 1978, presented to the said Court by COURAGE (EASTERN) LIMITED whose registered office is at Anchor Brewhouse, Horselydown, S.E.1. in the County of Greater London—Brewers, and that the said Petition is directed to be heard before the Court sitting at the Royal Courts of Justice, Strand, London WC2A 2LL, on the 6th day of March 1978, and any creditor or contributory of the said Company desirous to support or oppose the making of an Order on the said Petition may appear at the time of hearing, in person or by his counsel, for that purpose; and a copy of the Petition will be furnished by the undersigned to any creditor or contributory of the said Company requiring such copy on payment of the regulated charge for the same.

TROWER, STILL & KEELING,
5, New Square, Lincoln's Inn,
London, W.C.2.
Ref: RGW/AJB. Tel: 01-405 3612.
Agents for: C. R. JONES,
Bedminster, Bristol BS99 7JR.
Solicitors for the Petitioner.

NOTE.—Any person who intends to appear on the hearing of the said Petition must serve on, or send by post to, the above-named notice in writing of his intention so to do. The notice must state the name and address of the person, or, if a firm the name and address of the firm and must be signed by the person or firm, or his or their solicitor (if any) and must be served, or, if posted, must be sent by post in sufficient time to reach the above-named not later than four o'clock in the afternoon of the 3rd day of March 1978.

COMPANY NOTICES

BANQUE FRANCAISE DU COMMERCE EXTERIEUR

9%—International Bonds due March 15, 1989

$US20,000,000.—

We inform the bondholders that 500 bonds of nominal each $US1,000.— have been drawn for redemption in the presence of an "huissier" in Luxembourg on January 20, 1978.

The bonds will be reimbursed at par on March 15, 1978, coupon due March 15, 1979 and following attached, according to the conditions of payment on the reverse of the bonds.

The numbers of such drawn bonds are as follows:

14,256 to 14,375 incl.; 14,381 to 14,625 incl.; 14,631 to 14,657 incl.; 14,669 to 14,757 incl.; 14,759 to 14,777 incl.

The following bonds previously called for redemption have not as yet been presented for payment:

4,774, 4,775, 4,776, 4,777, 4,778, 4,783, 4,805, 4,806, 4,807, 4,819, 4,820, 4,821, 4,822, 4,823, 4,824, 4,825, 4,826, 4,829, 4,838, 4,840, 4,843, 4,844, 4,845, 4,846, 4,847, 4,848, 4,885, 4,891.

Amount outstanding after March 15, 1978: $US18,000,000.—

Luxembourg, February 6, 1978.

The Principal Paying Agent
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, avenue Emile Reuter
Luxembourg

TENDERS FOR GREATER LONDON BILLS

1. The Greater London Council hereby give notice that Tenders will be received at the Chief Accountant's Office (Bank Buildings), Bank of England, London EC2R 8EU, on Monday, 13th February, at 12 noon for Greater London Bills to be issued in conformity with the Greater London Council (General Powers) Act, 1967, to the amount of £35,000,000.
2. The Bills will be in amounts of £5,000, £10,000, £25,000, £50,000, £100,000, or £250,000. They will be dated Thursday 16th February, 1978, and will be due 91 days after date, without days of grace.
3. Each Tender must be for an amount not less than £25,000, and must specify the net amount per cent. (being a multiple of one new halfpenny) which will be given for the amount applied for.
4. Tenders must be made through a London Banker, Discount House or Broker.
5. The Bills will be issued and paid at the Bank of England.
6. Notification will be sent by post, on the same day as Tenders are received, to the persons whose Tenders are accepted in whole or in part and payment in full of the amounts due in respect of such accepted Tenders must be made to the Bank of England by means of cash or by draft or cheque drawn on the Bank of England not later than 1.30 p.m. on Thursday, 16th February, 1978.
7. Tenders must be made on the printed forms which may be obtained either from the Bank of England or from the Council's Offices at The County Hall.
8. The Greater London Council reserve the right of rejecting any Tenders.

M. F. STONEFROST,
Comptroller of Financial Services
The County Hall,
London SE1 7PB.
6th February, 1978.

هكذا من الأصل

Building and Civil Engineering

£20m. opencast coal project

A MAJOR opencast coal contract worth over £20m. has been awarded by the National Coal Board to A. F. Budge (Contractors).

The contract is at the Kingswood opencast site near Cannock, Staffs., and covers nearly 600 acres. Excavation of over 100m. tons of soil, overburden and rock down to 360 feet will be needed.

Over 4m. tons of coal is to be recovered and will be obtained from 18 different seams varying in thickness from 8 inches to over 6 feet.

Coal will be transported from the site to the nearby Cannock disposal point where it will be screened and then sent by rail to power stations and other Coal Board customers.

Budge is purchasing four additional face shovels for the task and these will be used to excavate above and between the coal seams and load into 24 new 50-ton dump trucks.

Finns plan big Nigerian project

FINNISH consulting agency, Tevecon Oy, is one of the several international agencies that will contribute to the planning of new university and hospital projects in Algeria.

A contract has been signed between the Algerian Ministry of Higher Education and Scientific Research (Ministere de l'Enseignement Superieur et de la Recherche Scientifique) and Tevecon Oy concerning the planning and the supervision of the construction work of a university and student campus in Setif; and also of university hospitals, one in Setif and another in Annaba.

These four together make up a project whose building costs have been estimated at over $120m. Finnish marks ($US280m.). The planning work will take two years to complete, and the construction phase another five years.

It is probable that building tenders will be asked from international markets. The planning and supervisory work now agreed upon totals 60 to 65m. Finnish marks ($US15m. to 16m.).

£4½m. award to Lovell Stewart

Lovell Stewart (Nigeria) has started work on a £4.5m. contract, involving the construction of an aircraft hangar and servicing complex at Murtala Muhammed Airport, for the Federal Ministry of Defence for use by the Nigerian Air Force.

The area covered by the building will be 10,800 square metres, the main hangar being 120 metres long by 60 metres wide and 20 metres to eaves. Construction is in structural steel with aluminium cladding on mass concrete bases. High quality hangar floor slabs and adjacent apron areas will be provided.

The project, scheduled for completion in 72 weeks, also includes a small ancillary block to house generators and other equipment; the workshop area is to be air-conditioned.

Design services are by Gryphon Associates of Edinburgh and the consultants are Integrated Builders of Ibadan, Nigeria.

Estimating made easy

REDLAND ROOF Tiles has introduced a quantities and prices estimating service which will be operated with the aid of a Honeywell computer time sharing installation in Cleveland, Ohio. The company produces about 1¼bn. concrete roof tiles a year.

The computer is programmed to estimate for any one of 15 basic roof shapes and their derivations and calculations are made in respect of all Redland roof tile shapes and include underfelt, roof fittings, nails or clips.

Buyers of Redland tiles take off the dimensions from the drawing in the usual way and then telephone the information to the company's head office in Reigate, Surrey. The operator there feeds the data to the computer and within a very short time—a matter of minutes—is able to relay the estimate to the customer. A printout confirming the quotation is mailed the same day.

The system has been devised by Roger Barwick, Redland Roof Tiles' financial controller. It is a free service and the company has been encouraged to set it up following its estimation that there will be a strong upward demand for roof tiles this year. Consideration is now being given to the provision of a similar service for vertical tile cladding.

£3.4m. homes by Mowlem

HOUSING contracts worth about £3.4m. have been won by John Mowlem and Co.

At Brookbridge, East Stevenage, Herts, Mowlem has won a £1.2m. contract for 119 dwellings and gained a second, worth about £2.25m. for 175 three-storey dwellings of traditional construction at Conniburrow 2B, Milton Keynes.

Work has already started on this contract which is due for completion in late summer 1979.

£1½m. shops project

BELLWAY HOLDINGS has awarded Brims and Co. a contract worth about £1.5m. for the construction of a major shopping development in Gosforth, Newcastle-upon-Tyne.

On a site of about 1.7 acres with a frontage of 360 ft to the High Street, it will when completed provide up to 80,000 sq ft of retail space divided into a supermarket and over 20 other individual units. Roof-top parking for 150 cars will be available.

Architects are Waring and Netts.

£3¼m. awards to Monk

THREE CONTRACTS totalling about £3¼m. have been won by A. Monk and Co.

At Oldham, the company is to build a depot for the Greater Manchester Passenger Transport Executive adjacent to the present bus depot. A two-storey building is called for. Architects are Taylor, Young and Partners and the contract value is £1.7m. Completion is expected early in 1980.

For the Milton Keynes Development Corporation, Monk is to construct advance factory units at a cost of over £1m., while at Port Sunlight it is to construct a powders processing unit for Unilever. Built from structural steel, this three-storey building will be clad with aluminium sheeting and part brickwork.

Cleethorpes gets new sea wall

SINCE THE recent severe storms and flooding along the east coast, defences against North Sea tidal surges are very much in the news. Cleethorpes in Lincolnshire is one coastal resort whose worries about such weather conditions could soon be over.

New 1km-long sea defences to cost over £1.2m. are being undertaken by Balfour Beatty Construction (BICC Group) and work has started on them with the driving of a sheet pile wall which will take about 1,000 tons of steel. The structure will also demand the installation of 300,000 tons of reinforced concrete and 50,000 tons of rock fill. They replace the existing sea wall which has been overcome twice in the last two years.

The whole operation should be completed in summer next year and meanwhile, Balfour Beatty is at work on the defences for the Lincolnshire Rivers Division of the Anglian Water Authority.

Wide variety of work

THREE research buildings for the Royal Signals and Radar Establishment are to be built under a £5.4m. contract awarded to Kier by the Property Services Agency on behalf of the Ministry of Defence.

One building will be of three storeys and the other two in a complex of eight interconnected blocks. Concrete frames, facing brick elevations and asphalt flat roofs are called for. The company, which is part of the French Kier Group, expects to complete the work in two years.

Another Group member, Robert Marriott, has won four contracts. They are for Milton Keynes Development Corporation for 296 dwellings (£3.3m.), for the Borough of Kettering for the conversion of factory premises into flats (£224,459) and for Habitat Designs for a warehouse extension at Wellingborough, Northants. (£196,000).

Also within the Group, W. and C. French has gained a £1½m. contract from the London Borough of Southwark for main foul and surface water sewers within the Old Surrey Docks. This work is due to be completed in March 1979.

Canal and flats in Spain

LAING SA, Spanish member company of the Laing Group, has started work on the construction of a 9.3 miles canal from San Javier to Cartagena in Murcia, southern Spain, and a block of flats in Madrid under two contracts together worth £2.5m.

The £1.2m. canal, which is the first stage in the second phase of a scheme to supplement drinking water supplies to Cartagena and adjacent towns, is being built for Mancomunidad De Los Canales Del Taibilla, and is scheduled for completion by the autumn of 1979.

The 12-storey block of flats and shops in Madrid are for Comunidad De Propietarios Del Edificio Maravillas and will cost £1.3m.

Minimising evaporation

NOW AVAILABLE in the U.K. is a floating aluminium internal cover for tanks containing hydrocarbon and volatile fluids. Designed in the U.S. by the Ultraflote Corp., the cover can reduce evaporation loss by 95 per cent; prevent contamination or air pollution; and increase storage safety.

The cover consists of a floating deck with a skin of aluminium foil supported by an aluminium rim and tubular pontoons on a structural framework. The deck is strong enough to walk on. The components will all pass through shell or roof manways, eliminating cutting of the tank for access.

A typical 50-foot diameter cover would cost about £7,000 and take 190 man-hours to instal with unskilled labour. First U.K. installation will be at a man-made fibre factory next month.

U.K. agent for the deck is Nayler Petroseals, Dudley, DY2 7BY, West Midlands (0384 54406).

Concrete components

OMNIA International Building Systems which licences methods of flooring construction throughout the world has been awarded a £1m. contract by the State Constructional Contracting Co. in Iraq.

The contract is for the design and supply of equipment for a factory to produce components for the Omnia system and includes the training of Iraqi personnel in production methods.

Production capability will be over 1.6m. square feet of components annually. Omnia's licensee will be using the components for an extensive construction programme in the Baghdad area.

Cooling towers in Turkey

AT ALAGAR, Turkey, the condensers on two 165 MW power stations are to be served by two concrete shell cooling towers, each of 11 cells. Total water throughput is 49,000 tons/hr. (enough to fill an Olympic swimming pool in three minutes).

The order, worth nearly £¾m., has been placed by Skoda Export, Czechoslovakia, with Film Cooling Towers (1925), of Richmond, Surrey. Each cell will have a 7.3 metre diameter cooling fan.

FCT has also secured orders to supply cooling towers worth £102,000 to OXO in Sweden, and worth £195,000 to Fluor in the U.K.

£6m. Qatar airport contract

The overseas asphalt subsidiary of George Wimpey has been awarded a contract by the Ministry of Public Works, Qatar, for work at Doha International Airport.

The contract worth £6m. has just started and includes the resurfacing of aircraft pavements, taxi ways and aprons. During the operation, continuous flying schedules will be maintained while the work of laying 184,000 tons of asphalt proceeds in order to complete the contract by July, 1979.

Large, so far as fitting out contracts go, is the £2m. award to George Wimpey and Co. for the fitting out and completion of a new superstore for the British Home Stores-Sainsbury enterprise.

The store will form part of Hemstead Valley Shopping Centre at Gillingham, Kent. Developers here are Federated Homes, and work has already started for completion this September.

Architects are the J. S. Sainsbury Architects Department and the quantity surveyors Henry Riley and Son.

More council work

TARMAC's MIDLAND contract housing organisation has won a £1.3m. contract for 107 council homes at Great Wyrley in South Staffordshire for South Staffs District Council. It will be the first phase of an estate that will eventually house nearly 850 tenants.

Work on the site, at Streets Lane has begun this week and will take 90 weeks.

It takes the value of work under way for local authorities in the Midlands by the organisation to more than £13m. covering some 1,400 homes.

Sites for deep holes

IF ATOMIC waste is to be stored safely at great depths for the next 4000 years or so, those who place the containers of glassified material in granite formations of unquestioned geological stability will also have to assure themselves that there is no fissuring of the formations. In other words, they must make certain that there is no water movement through the storage formations that could possibly attack the containers and, century by century, leach out radioactive contaminants and channel them into the general water table of Britain.

This is the primary aim of a drilling programme set up by the UKAEA and for which permission is being sought for sites in south-west Scotland, in Carrick Forest, and in the Chillingham Forest of Northumberland.

Several hundred feet down in these areas there are granite formations which might be suitable for waste storage. The primary objective of the work is to find out whether these formations are solid or have a structure which will allow infiltration and this will be determined by drilling closely sited holes several hundred feet deep and then forcing water down one and monitoring for its presence in the other.

Ultimately, it is anticipated, storage holes may go down as much as 1000 feet. But whether granite is found to be the best, or clay formations, or chambers in underground salt deposits will be determined on the outcome of an international research project looking into the various storage possibilities.

It also remains to be seen whether the U.K.-developed glassification method is selected against such systems as the high pressure encapsulation of waste suggested and extensively researched and demonstrated in Sweden.

Brine pit by Simonbuild

A £360,000 contract has been awarded to Simonbuild Stockport (a Simon Engineering company), for the construction of a brine pit and associated works. It is part of the £15m. modernisation of BP Chemicals' chlorine production facilities at Sandbach, Cheshire, for which Sim-Chem is the main contractor.

IN BRIEF

- Andrew A. Pegram has begun work on a £150,000 extension to Loewe, Spanish leather merchandise specialist, at 25 Old Bond Street, London, W.1. Architect is Jacques Blond, Paris.
- Costain Construction has been awarded at £250,000 contract to build a geriatric ward and plant room at Stratford-upon-Avon General Hospital for the West Midlands Regional Health Authority.
- Under a £430,000 contract awarded by Foster Wheeler Sir R. McAlpine and Sons is to provide plant bases, pipe rack foundations, drains, fire mains and cable trenches at Lindsey Oil Refinery at South Humberside.
- Benlox Holdings has received an order to carry out finishing work to 154 villas in Dubai, United Arab Emirates. The contract is worth over £1m.
- Part 3 of the six-part publication "Electrical Installations of Buildings" has been published by the International Electrotechnical Commission, Geneva, which is affiliated to the ISO. This part covers assessment of general characteristics. Part 4—"Protection for Safety"—is expected at the end of February. Work on the standard commenced in 1967.
- A £1m. contract to fit out a major extension to British Home Store's department store in Edinburgh has been awarded to the Scottish Region of John Laing Construction.
- Briggs Amasco has been given a £200,000 order for Bitumetal (metal-deck roofing) and metal side-wall cladding on seven advanced factory units at Bromborough, Wirral and another worth about £150,000 for insulation and mastic asphalt roofing on Liverpool's new Law Courts.
- Long Products, pipe tape manufacturing subsidiary of Mears Holdings, has won orders worth over £300,000 to supply protective tape for the Adia gas pipeline in Hungary and the Yugoslavia-Hungary oil line.

LOMBARD

An undiplomatic ambassador

BY ANTHONY HARRIS

MR. ALONZO McDONALD has a name which is memorable in itself. And in the flesh he lives up to it. The tradition of trade negotiations is to achieve agreement by boring your opposite number out of his senses: everything is wrapped up in anodyne words and recondite figures. Mr. McDonald, who is head of the U.S. delegation for the Tokyo Round talks now starting in Geneva, has broken that mould.

He looks every inch a diplomat, and is a former management consultant, but he is not a man to call a spade a soil excavation programme. His words are *blunt and plain—up to a point.*

When he came to London last week and addressed the Foreign Affairs Club on his way to Geneva, he was not ashamed to describe American policy as containing a "more or less aggressive me-firstism" — an attitude that *first emerged* with an equally plain speaker, Mr. John Connally.

He was equally blunt about the political pressures under which he is negotiating. Unless some acceptable agreements can be put to Congress in principle *towards the end of this year and* in legislation by about the following spring, the whole issue may become hopelessly entangled in the next Presidential *campaign*. And in the U.S., liberal trade looks like a vote-*loser*.

This is likely to be the last trade round for a very long time *and in the political situation* which will emerge after mid-1979, some new rules are going to be needed.

Protectionism

This could, of course, be nothing but an acute negotiating ploy: the Ambassador was in effect asking his opposite numbers *to provide something* to help President Carter persuade a potentially rebellious Congress to agree to anything at all. Pleading powerlessness against your own *voters is one of the* oldest but still one of the most effective tactics in any bargaining between sovereign States, as every Brussels veteran knows.

However, there seems every reason to believe Ambassador McDonald, for what he said is borne out both by political observation in the U.S.—and in *other countries for that matter* —and by the economic situation. At a time when the world is in obstinate recession, and it is fashionable in the financial world to say that this is the long downswing forecast by Kondratieff (who must be laughing *from his Bolshevik grave*) some economic isolationism is natural and even *rational*.

The natural result of this would be a mixture of cartelisation and *ad hoc protectionism of* the kind that was familiar 40-odd years ago. But, according to Ambassador McDonald, that is exactly what the U.S. is now determined to avoid. His bluntness *rather* deserted him when he called for a regime which would avoid harsh internal adjustments while preserving competition, conducted under trade arrangements which *would* combine greater flexibility with greater discipline.

One is tempted to suggest that proposals to achieve these ends should be submitted to the U.S. authorities on square, circular paper, and leave it at that. But *the Ambassador did drop a few* hints to help decipher his formulae. He denounced the GATT rules as rigid, cumbersome and slow, and he expressed impatience with *some* countries which ignore them altogether. And he talked about industrial capacity.

What he proposed was that *there should be international* consultations on plans for major new capacity in sensitive industries. He called this a step towards the French idea of orderly free trade. *but it sounded more* like an attempt to internationalise French indicative planning.

Horse trading

If the idea was to achieve binding agreement on new investment it would be a non-starter. It is hard to imagine sovereign governments *negotiating such* questions successfully, as the Industrial Commissioner in Brussels could testify, and equally hard to imagine how such agreement would be enforced.

But Ambassador McDonald was quick to disown any such disciplinarian notions. He only wanted, he said, to achieve "*transparency*" in *an area where* little light had hitherto been shed.

The meaning is still far from obvious. But if you take all these rather impenetrable remarks together, and stir in some more rather vague observations to the effect that "the commingling of economics and politics makes obsolete our past mechanisms for resolving trade disputes," a picture begins to emerge which can be described in two words: horse trading.

Ambassador McDonald would *be happy to start discussing the* ground rules. Next time he says it, though, I hope he will be more transparent.

THE WEEK IN THE COURTS

When promissory notes resemble commodities

BY JUSTINIAN

WHEN A BANK discounts a long-term *promissory* note for a borrower, what is the commercial nature of the transaction? That was the crucial issue in *the appeal in the House of* Lords in Willingale (Inspector of Taxes) v. International Commercial Bank Ltd. decided *last* Thursday *in favour of the* taxpayer by a 3-2 majority.

Lord Diplock (one of the two dissenting *Law Lords*) said that the transaction seemed to him to be "a loan of money repayable by a larger sum at a *future date*," a view shared by Lord Russell of Killowen. But the majority (the two Scots *Law Lords, Fraser of Tully*belton and Keith of Kinkel, together with Lord Salmon) took a contrary, *and in some respects* curious, view. They said that what the bank was doing was *essentially* different from earning interest on a loan, being akin to acquiring a commodity.

Preparing

Very briefly, the *facts* were these: International Commercial Bank (ICB) *discounted* promis*sory notes* for terms up to ten years for foreign borrowers, and in preparing its accounts *followed the method generally* adopted by clearing banks (and in accordance with accountancy *principles*) to give a *true* and fair view of the profits for each year during which they held a *note, by taking credit for* a time-based proportion of what they would earn, in discount, *over its whole life. By way of* example, a five-year note of face value £15,000, would be discounted *for £10,000: ICB* would at the end of each of the ensuing five years bring £1,000 of the total discount into credit in its profit and loss account, instead of waiting until the note matured and then bringing in the whole £5,000. Each such annual slice of discount was variously described as "accrued, *or earned, discount*." ICB appealed against assessments to tax, based on its own figures *for annual profit, on the ground* that this method infringed the fundamental principle of tax *law, that profit is not to be taxed* until is has been *realised*.

So the whole argument turned on whether *this judicially*-coined principle applied to exclude any such element of "earned discount" from a *year's* tax computation. The leading majority speech was Lord Fraser's, who made four points: (1) discount, unlike interest, does not accrue and is not earned; (2) when a bank discounts a bill it does not, *except in a very loose sense*, render services to the borrower; (3) it is acquiring an asset, and so long as it continues to hold *that asset it does* not, and cannot, realise any profit or loss in respect of it; (4) if the bank *takes credit for* any "*accrued* discount" while it is still holding the bill, it is thereby anticipating a profit that has not yet been realised, just as would be the case if the bills were ordinary commodities.

Lord Keith put his finger on the logic of the contrary view when he said: "The reason why accounts prepared in the manner adopted by ICB show a true and fair view of its profits over *the years* is that, in order to have funds available for its bills of exchange transactions, the bank *borrows money* at interest. The interest payable each year goes into the debit side *of the profit and loss account* and it is with the object of showing what benefit there is *to counter-balance these* payments that a fractional part of the discount on the bills is taken into *the account on the* credit side in each year." But he at once went on: "It is not accurate to say that the interest payments are earning these fractional parts of the discount," and he concurred *with his Scots colleague's* propositions (3) and (4) stated earlier. Significantly he did *not adopt point (1)*, and (2) *he* adopted only in this qualified form: "ICB is not reasonably *to be regarded as rendering* services to the issuers of the bills for which the latter then and there become liable to pay." (Nobody could quarrel with that!)

Lord Salmon, the third of the majority, *having agreed with* both Scotsmen, went on to consider what ought to happen in the case of a five-year loan of £10,000 at compound interest, payable only at the end of the term, and amounting to £5,000 *in aggregate: tax, he thought*, would be exigible on the £5,000 *for the fiscal year* in which the loan agreement was made "with an allowance for the deferment of the payment of interest. That would be the year in which the bank earned the right to be paid the £5,000 in five years' time."

The minority (Lords Diplock and Russell of K. Newton) took a *simple view—the converse of* Lord Fraser's unqualified point (2) — that discount (like interest) is the lender's reward which he earns by providing a service—the use of his money— over a period of time. Although *such reward be not* payable at the end of year 1, the service of providing the money throughout year 1 has been, *by its end*, completely rendered; hence earned; hence no principle of tax *law* precludes credit *from* being brought to account, when to do so accords with sound *accountancy practice*.

Maddening

Since there was no majority for Lord Fraser's unqualified (2), *it is not easy to distil from* all this any clear single principle upon which to conclude how *the court decided to appeal.* A further maddening complication is the suggestion, rejected by the minority but treated without disapproval by the *majority* that *the whole of the discount could be brought into account* as an earning in the year in which the note was acquired, though at a reduced figure to reflect deferment of the date of actual payment.

The inference must be—in the example put—that although *to* bring £1,000 into credit in year 1 objectionably anticipates profit, to bring in £5,000 reduced by £x would be unobjectionable: and presumably, in that case, the £x *would* be taxable at the *end of year 5.*

The accountancy profession is likely to take that suggestion to its bosom with as *little* enthusiasm as the decision itself will be received by academic lawyers. With due respect to Lords Fraser and Salmon, they seem to have decided that a moneylender who takes a pro*missory note from* his borrower has essentially stepped out of the business of providing a loan service, *and marched into the* commodity market.

This unlucky England XV deserves another chance

UNREMITTING rain before and during England's match against Wales at Twickenham ensured *that chance* would play as large a part as skill and muscle. In such conditions it was frequently an advantage not to have the ball. Wales won again 9—6, with Bennett kicking three penalties for Wales, and Hignell two for England.

England again had the galling experience of having a good share of the game only to be denied a share of the spoils at the last gasp.

They took a quick lead with a splendidly struck penalty by Hignell, but this all-important first score was immediately nullified as Young was caught offside and Bennett took the gift kick easily.

Curiously *in the opening* period neither side showed any regard for the conditions, and Gravell once slipped Corless disquietingly, and on their own account England were clearly anxious to move the ball quickly.

The game changed in character as the England pack began to dominate the rucks and mauls. Wheeler and Burton, Horton and Beaumont were all *immense*; but it was a tremendous collective effort. Although Martin won a lot of line-out ball in the first half for Wales, it was not always of good quality. So we *had the* unusual sight of Gareth Edwards's kicks being charged down by Rafter and Mordell. Even Edwards could not gauge accurately *the amount of power* needed to make the ball go into touch.

Mordell had a fine debut—apart from his expensive mistake at the end of the match. When Bennett and *J. P. R. Williams* did kick, they found Hignell in superb form, and he saved England *from prolonged* pressure. Hignell gave England the lead 15 minutes before half-time, but on *the other hand, he missed* three other kicks before the break, and they were to prove mortal.

England mounted a furious forward attack through Burton,

RUGBY UNION

BY PETER ROBBINS

Wheeler and Nelmes, and it was taken on by Young, John Horton and Dodge. *Only Cobner's cover* saved the moment, and so at half-time England had every *right to feel aggrieved* not to be leading by nine rather than their three points.

Bennett quickly balanced matters after half-time, to which England responded with a concerted attack. Nigel Horton, Rafter and Beaumont got the ball to Squires, with Burton intervening. Had John Horton not turned back inside to *Burton*, a three-quarter score was on. That was the last coherent attack England *made*, and from 10 minutes after half-time, England never got out of their *half*.

This dramatic turn-round began with a colossal kick from Edwards of fully 70 yards, taking play to two yards from England's line. England were then put on the rack by Edwards, who enjoyed a little more free*dom than in* the first half.

Wales were also helped in their *territorial investment* by Horton and Hignell kicking short against the wind. Young chipped away bravely, and *Slemen, too*, but England could not shift Wales an inch.

There was also a change at the scrum, where Wales suddenly found new life, and Faulkner and Price enjoyed the experienced and heavy drive of Martin and Wheel. Cobner also did much more tidying up, but wisely Wales restricted their three-quarter movements.

J. P. R. Williams cut through once, only to be flattened by Wheeler and Nigel Horton. In the next minute, J. J. Williams was late tackled by Squires, and, although Fenwick missed the kick, Wales had made the point that if required, they had a greater breadth to *their game*.

Yet still England held out, and the game seemed to be heading for a *justifiable draw* when Cobner set up a ruck, in which Mordell handled. Bennett could not *miss* the straightforward penalty.

That was a cruel blow, the result of extreme pressure. Worse was to come, for when Young was *late tackled, Hignell* had the chance to save the game. He missed the kick, and revived scarred memories of the French game last year.

England's *new caps*, Dodge, John Horton and Mordell, all fitted in well and, despite this second setback, England can be proud of their performance against such seasoned campaigners. The same team should be given its chance against Scotland.

One thing is clear — that Wales's match *against* France in March will again be the championship decider. Gareth Edwards, playing in his 50th international, will need to have all *his wits* about him. The remarkable thing is that he still obviously enjoys playing and can raise his game when required.

France show great character

FRANCE, proved in the pouring rain and hostile, environment of *Murrayfield that they are a side* of character. They beat an improved Scottish team 19—16 after being 13—0 behind.

They had their share of luck —Gallion's try in first-half injury time undoubtedly restored morale—but were magnificently led by Bastiat. *His game has* improved since he took over the captaincy, and he now plays with all his *former brilliance* but a great deal more discipline.

And Scotland were hit by injury. Their try-scorers, full-back Irvine and left-wing Shedden had to *leave the field*.

Irvine was the more serious loss, injuring his left shoulder when diving to touch down a try. It is to be hoped that he will be fit to *face* Wales at Cardiff on February 18. Shedden was carried off on a stretcher with concussion, and may need longer to recover.

The conditions prevented a fast handling game, and both sides were prone to mistakes, but *the match* was packed with excitement and incident.

Some of the refereeing decisions, particularly over offside, were *puzzling*. But these did not materially affect the result.

None of the points came from planned and smoothly executed *moves*. Except, perhaps, the drop goal, neatly taken by Scottish captain and scrum-half Morgan when everyone thought the referee had indicated an *indirect penalty*. *Without* the benefit of a close-up it looked for all the world as if he had *kicked direct*.

But if there was a lack of finesse, there was no *lack* of heroism. Most would have given little for Scotland's chances of *beating the five-nation* champions, especially after their showing against the Irish a fortnight earlier.

Yet, they were able to unsettle the French pack, which *was* superior in every department, and at some of the set pieces had Scotland wheeling backwards at a trot.

Sotland, however, took the one strike against the head, and when hooker Deans finally controlled his throwing-in McHarg consistently won the ball in the middle of the line.

The French back row of Rieves, *Skrela* and *Bastiat* is acknowledged as the best loose trio in the world. Yet Scotland *time and again* tackled and spoiled, with McLauchlan covering a lot of ground. *Scotland's* own disregard for offside brought so many penalties for Aguirre that he eventually kicked *enough* to win the match.

Behind the pack Scotland *again failed*, with *stand-off* Wilson having a dismal game and centre McGeechan crash-tackled *to a standstill* by Bertranne.

Although France never really reached boiling point they pro*duced a spirited display of* a kind they could not manage a few years back. They should have no trouble at home to Ireland on February 18, and then all will hang on the *last* match of the championship, against Wales in Cardiff on March 18. It will take *a lot to stop them winning* a second successive grand slam.

STUART ALEXANDER

Highbury hardly fit to play

RATHER SURPRISINGLY referee Shapter decided to allow the Arsenal and Aston Villa match to take place, although heavy rain still pouring down at kick-off, *had transformed* Highbury's normally fine pitch into a swamp. There were pools of water and grass was visible only down the wings.

Soccer can be played on virtu*ally any surface* and in any climate, but whether one should stage a First *Division* match when good passes often stick in the mud, players slip over, mistakes abound, and *luck is vital, is* a matter of opinion.

It could be argued that it was the same for both *sides*, *that* nobody wants a backlog of fixtures, and that more than 30,000 *were still provided with plenty of* excitement as well as moments of unintentional farce.

ally any surface and in any

Many of the drenched crowd *left early, and this was, I suspect,* due to disappointment at Arsenal's performance and also to gain a front place in the queue *for tickets for the Football* League Cup clash with Liverpool.

The surface did not suit Arsenal's style, which relies so

SOCCER

BY TREVOR BAILEY

much on the short delicate ground pass. They also made the mistake of trying to force their way through a muddy mid*field*.

Villa adapted better to the conditions. The well-balanced Little *caused* frequent problems as he glided down the left flank. Mortimer showed greater power and stamina in midfield than any of his rivals, and hit some *long, accurate passes. Villa's* new signing from Newcastle, the half-back Craig, seems to be settling well.

The first half belonged to Villa, even though their decisive goal was presented to them. Jennings decided to punch rather than catch an in-swinging corner and the ball rebounded into the net off the unlucky Macdonald, who contributed little in the *afternoon*.

After the interval, Arsenal pushed Brady forward, did enough attacking and created sufficient chances to have scored an *equaliser*. But the Villa back four calmly absorbed the punishment, and their former Arsenal 'keeper, Rimmer, was in outstanding form.

Arsenal failed to appreciate that the situation called for firmly-hit first-time passes and continuous *harassment* of a defence which was bound to make the occasional mistake. For once, possession was less important, because on that pitch it was impossible to retain the ball for any time.

TV/Radio

† Indicates programme in black and white

BBC 1

9.38 a.m. For Schools, Colleges. 10.45 You and Me. *11.22 For* Schools and Colleges. 12.45 p.m. News. 1.00 Pebble Mill. 1.45 Bod. 2.01 For Schools, Colleges. 3.15 Songs of Praise. 3.53 Regional *News for England* (except London) 3.55 Play School (as BBC 2 11.00 a.m.). 4.20 Deputy Dawg. 4.25 Jackanory. 4.40 Hunter's Gold. 5.05 John Craven's Newsround. 5.10 *Blue Peter*.
5.40 News.
5.55 Nationwide (London and South-East only).
6.20 Nationwide.
6.50 Ask the Family.
7.15 Blake's Seven.
8.10 Panorama.
9.00 News.
9.25 The Monday Film: "The *Groundstar Conspiracy*," starring George Peppard.
10.55 Tonight.
11.35 Weather/Regional News.

All Regions as BBC-1 except at the following times:—

Wales—1.45-2.00 p.m. Pili Pala. 2.18-2.38 For Schools. 5.55-6.20 Wales To-day. 6.50-7.15 Heddiw. 11.35 News and Weather for Wales.

Scotland—10.00-10.20 a.m. For Schools (around Scotland). 5.55-5.20 p.m. Reporting Scotland. 10.55 Public Account. 11.30 News and Weather for Scotland.

Northern Ireland—3.53-3.55 p.m. Northern Ireland News. 5.55-6.20 Scene Around Six. 6.20-6.50 Land 'N Larder. 11.35 News and Weather for Northern Ireland.

England—5.55-6.20 p.m. Look East (Norwich); Look North (Leeds, Manchester, Newcastle); Midlands To-day (Birmingham); Points West (*Bristol*); South To-day (Southampton); Spotlight South West (Plymouth).

BBC 2

11.00 a.m. *Play School*
3.00 p.m. Wordpower
3.30 Children Growing Up
4.00 The Object of the Exercise
6.10 Open University
7.00 News on 2 Headlines with sub-titles
7.05 Ancestral Voices
7.30 Newsday including China in Hong Kong
8.10 *International Cabaret*
9.00 Americans
9.50 Marie Curie (Part 4)
10.45 China Entertains: Tientsin Acrobatic Troupe
11.15 Darts. Embassy World Professional Darts Championships
11.40 Late News on 2
11.50 *Tele Journal*

LONDON

9.30 a.m. Schools Programmes. 12.00 Noddy and Bunkey. 12.10 p.m. Rainbow. 12.30 Indoor League. 1.00 News plus FT index. 1.20 Help. 1.30 About Britain. *2.00 After Noon.* †2.25 Monday Matinee: "The Inspector Calls" starring Alastair Sim. 3.50 Couples. 4.20 Clapperboard. 4.45 The Flockton Flyer. 5.15 Pauline's People.
5.45 News
6.00 Thames at 6
6.40 Help
6.45 Opportunity Knocks
7.30 Coronation Street
8.00 Miss Jones and Son
8.30 World in Action
9.00 Hazell
10.00 News
10.30 The Big Film: "They Came to Rob *Las* Vegas"
12.50 a.m. Close: Mahdav Sharma reads some sayings from the Tao Te Ching to celebrate the Chinese New Year

All IBA Regions as London except at the following times:—

ANGLIA

1.25 p.m. Anglia News. 2.00 Houseparty. 2.25 Family. 3.20 Arnie. 5.15 University Challenge. 6.00 About Anglia. 10.30 Wish You Were Here. 11.00 Mystery Movie—Columbo. 12.25 a.m. Reflection.

ATV

12.30 p.m. George Hamilton IV. 1.20 ATV Newsdesk. †2.25 Movies to Remember: "The Spy in Black" starring Conrad Veidt and Valerie Hobson. 5.15 University Challenge. 6.00 ATV Today. 10.30 Left Right and Centre. 11.00 Bless This House. 11.30 A Prime Minister on Prime Ministers. 12.00 Something Different.

BORDER

12.30 p.m. The Flintstones. †1.20 Border News. 2.00 Houseparty. 2.25 Matinee: "*Trouble Comes To Town*." 5.15 Garnock Way. 6.00 Lookaround Monday. 6.15 University Challenge. 10.30 Film: "Carnival of Thieves" starring Stephen Boyd. †12.30 a.m. Border News Summary.

CHANNEL

1.18 p.m. Channel Lunchtime News and What's On Where. 2.25 The Monday Matinee: Columbo. 5.15 University Challenge. 6.00 Channel News. 6.10 Cartoontime. 10.28 Channel Late News. 10.32 Steal Away. 11.00 Late Night Movie: "In Search of Gregory." 12.35 a.m. Channel Gazette followed by News and *weather in French*.

GRAMPIAN

9.23 a.m. First Thing. 12.30 p.m. Reardon on Snooker. 1.20 Grampian News Headlines. †2.25 Monday Matinee: "Where There's A Will" starring Will Hay. 5.15 University Challenge. 6.00 Grampian Today. 6.10 The Electric Theatre Show. 6.40 Help! 10.30 Reflections. 10.35 Feature Film: "My Lover, My Son" starring *Romy Schneider*.

GRANADA

12.30 p.m. All About Babies. 1.20 Dodo. 2.25 Monday Matinee: "The Elevator." 5.15 University Challenge. 6.00 Granada Reports. 10.30 Reports Politics. 11.15 Mystery Movie: Columbo.

HTV

12.30 p.m. *Gardening My Way*. 1.20 Report West Headlines. 1.25 Report Wales Headlines. 2.00 Houseparty. 2.25 Rush. 3.25 Survival. 5.15 Mr. and Mrs. 6.00 Report West. 6.22 Report Wales. 10.35 The Monday Film: "Funeral In Berlin" starring Michael Caine.

HTV Cymru/Wales—As HTV General Service except: 1.20-1.25 p.m. Penawdau Newyddion y Dydd. 2.00-2.25 Hamdden. 6.00-6.22 Y Dydd. 8.30-9.00 Yr Wythnos.

HTV West—As HTV General Service except: 1.20-1.30 p.m. Report West Headlines. 6.22-6.45 Report West.

SCOTTISH

1.25 p.m. News and Road Report. †2.25 *Monday Film Matinee*: "The Man Who Could Work Miracles" starring Ralph Richardson. 5.15 *University Challenge*. 6.00 Scotland Today. 6.30 Crimedesk. 10.30 The Big Break International. 11.00 Master Golf. 11.30 A Prime Minister on Prime Ministers. 12.00 Late Call. 12.10 a.m. The Butlin's Grand Masters Dart Championships.

SOUTHERN

12.30 p.m. Farm Progress. 1.20 *Southern News*. 2.00 Houseparty. 2.25 Monday Matinee: "The Happiest Days of Your Life" starring Alastair Sim. 5.15 Mr. and Mrs. 6.00 Day by Day. 10.30 Music in Camera. 11.00 Southern News Extra. 11.10 Bill Brand.

TYNE TEES

9.20 a.m. The Good Word *followed* by North East News Headlines. 12.30 p.m. The Seal Pup. 1.20 North East News and Lookaround. 2.25 Power Without Glory. 3.20 Generation Scene. †3.35 The Little Rascals. 5.15 University Challenge. 6.00 Northern Life. 6.40 Police Call. 10.30 Northern Scene. 11.00 Monday Night Movie: "Hamlet." 12.25 a.m. Epilogue.

ULSTER

1.20 p.m. Lunchtime. 2.30 Monday Matinee: "Rembrandt" starring Charles Laughton, Gertrude Lawrence and Elsa Lanchester. 4.18 Ulster News Headlines. 5.15 University Challenge. 6.00 Ulster Television News. 6.05 Upsquares and Down. 6.30 Reports. 10.30 Two at 10.30. 10.35 Review. 11.05 Fireside Theatre, *followed by Bedtime*.

WESTWARD

12.27 p.m. Gus Honeybun's Birthdays. 1.20 Westward News Headlines. 2.25 The Monday Matinee: Columbo. 5.15 University *Challenge*. 6.00 Westward *Diary*. 6.20 Sports Desk. 10.28 Westward Late News. 10.30 *Steal Away*. 11.00 *Late Night Movie*: "In Search of Gregory" starring Julie *Christie*. 12.35 a.m. Faith for Life.

YORKSHIRE

12.30 p.m. On Seven Hills They Built A *City*. 1.20 *Calendar News*. †2.25 Monday Film Matinee: "The Man Who Could Work Miracles" starring Roland Young and Ralph Richardson. 5.15 University Challenge. 6.00 Calendar (Emley Moor and Belmont editions). 10.30 The Savage West: "Dead Or Alive."

F.T. CROSSWORD PUZZLE No. 3,586

ACROSS

1 Inexperienced doctor comes back in a fishy struggle (3-3)
4 "The rural ditties were not mute — to the oaten flute" (Milton) (8)
9 A dollar makes the Frenchman bend (6)
10 Puts away a rich man with an ogre inside (8)
12 Give a biding to a loafer (3,5)
13 A college body (6)
15 Uncommon association of two regiments (4)
16 It may cool Hal or warm him up (7)
20 Birds get small return in the mines (7)
21 Influence tending to the left of course (4)
25 The Frenchman has to declare it's his last term (6)
26 We have little time this month for the workers (8)
28 Joy finds it in one term (8)
29 Take a brief note of this time (6)
30 In principle people construct a dwelling (8)
31 We find Poles always inside the French town (6)

DOWN

1 Pals around fifty can be snobs (8)
2 For a naval establishment cut off three feet (4-4)
3 Extemporises with notices about a party (2-4)
5 Her Majesty takes in Ireland (4)
6 Rules of precedence an expert has to pass (8)
7 City district in mature prescription (6)
8 Issued possibly in abeyance (6)
11 Bandits—not relations by marriage (7)
14 Looking for custom? Take an excursion from a road junction (7)
17 Brain to see before Birmingham (8)
18 Headgear for stream and river (8)
19 "All that — is not gold" (MoV) (8)
22 Out of date—certainly not for Easter Sunday (3,3)
23 Show agreement on the parade ground (4,2)
24 A sign of promotion makes a good man ready (6)
27 Consumed, we hear, in college (4)

The solution of last Saturday's prize puzzle will be published with names of winners next Saturday.

RADIO 1 247m

(S) Stereophonic broadcast

6.00 a.m. As Radio 2. 7.02 Noel Edmonds. 9.00 Simon Bates. 11.31 Paul Burnett including 12.30 p.m. Newsbeat. 2.00 Tony Blackburn. 4.31 Dave Lee Travis including 5.30 Newsbeat. 7.00 BBC Northern Radio Orchestra (S) (Joins Radio 2). 10.02 John Peel (S). 12.00-12.05 a.m.: As Radio 2.

VHF Radios 1 and 2: 6.00 a.m. With Radio 2, including 1.55 p.m. Good Listening. 10.02 With Radio 1. 12.00-12.05 a.m. With Radio 2.

RADIO 2 1,500m and VHF

6.00 a.m. News Summary. 6.02 Ray Moore (S) with The Early Show, including 6.15 Pause for Thought. 7.32 Terry Wogan (S) including 8.27 Racing Bulletin and 8.45 Pause for Thought. 10.02 Jimmy Young (S). 12.15 p.m. Waggoners' Walk. 12.30 Pete Murray's Open House (S) including 1.45 Sports Desk. 2.30 David Hamilton (S) including 2.45 and 3.45 Sports Desk. 4.30 Waggoners' Walk. 4.45 Sports Desk. 4.47 John Dunn (S) including 5.45 Sports Desk. 6.45 Sports *Desk*. 7.02 *BBC Northern Radio* Orchestra (S). 7.30 Alan Dell: 7.30 The *Dance Band Days*. 8.02 The Big Band Sound (S). 9.02 Humphrey Lyttelton with *The Best of Jazz on records* (S). 9.55 Sports Desk. 10.02 You've Got To Be *Joking*. 10.30 Star Sound. 11.02 Brian Matthew with The Late Show. 12.00-12.05 a.m. News.

RADIO 3 464m, Stereo & VHF

(Q) Quadraphonic broadcast
‡Medium Wave only

‡6.55 a.m. Weather. 7.00 News. 7.05 Overture (S). 8.00 News. 8.05 Morning Concert (S). 9.00 News. 9.05 This Week's Composer: Paganini (S). 9.55 Talking About Music (S). 10.25 Piano Recital part 1: Beethoven, Schumann (S). 11.05 In Short (talk). 11.15 Piano Recital, part 2: Chopin (S). 12.05 p.m. BBC Welsh Symphony Orchestra (S). 1.00 News. 1.05 BBC Lunchtime Concert (S). 2.05 St Albans 77: Organ recital (S & Q). 2.50 Matinee Musicale (S). 3.50 Brahms Songs (S). 4.30 New Records (S). 5.15 Bandstand (S). 5.45 Homeward Bound (S). 6.05 News. 6.10 Homeward Bound (continued). 6.30 Lifelines: Home and Family. 7.30 Claudio Arrau piano recital (S). 8.40 The Abuse of Psychiatry (talk by Dr. John Gunn). 9.00 BBC Symphony Orchestra at the Round House (S). 10.20 Haydn String Quartets. 10.55 Jazz in Britain: Don Rendell Eleven (S). 11.25 News. 11.30-11.35 And Tonight's Schubert Song.

Radio 3 VHF only—6.35-7.00 a.m. Open University.

RADIO 4

434m, 285m and VHF

6.15 a.m. News. 6.17 Farming Week. 6.35 Up to the Hour. 6.52 (VHF) Regional News. 7.00 News. 7.10 Today. 7.35 Up to the Hour (continued). 7.52 (VHF) *Regional News*. 8.00 News. 8.10 Today including news headlines, weather, papers, sport. 8.45 John Ebdon with the BBC Sound Archives. 9.00 News. 9.05 Start the Week with Richard Baker (from 9.45). 10.00 News. 10.05 Wildlife. 10.30 Daily Service. 10.45 Morning Story. 11.00 News. 11.05 King and Country: That Ill-starred Resolution. 11.50 Announcements. 12.00 News. 12.02 p.m. You and Yours. 12.27 Top of the Form. †12.55 Weather, programme news VHF (except London and SE) Regional News. 1.00 The World at One. 1.30 The Archers. 1.45 Woman's Hour (from 2.00) including 2.00-2.02 News. 2.45 Listen With Mother. 3.00 News. 3.05 *Afternoon Theatre* (S). 4.35 Story Time. 5.00 PM Reports. 5.40 Serendipity. †5.55 Weather, programme news VHF Regional News. 6.00 News. 6.30 What Ho! Jeeves. 7.00 News. 7.05 The Archers. 7.20 From Our Own Correspondent. 7.45 The Monday Play (S). 9.15 Festivals of Europe. 9.30 Kaleidoscope. 9.59 Weather. 10.00 The World Tonight. 10.30 Through African Eyes. 11.00 A Book at Bedtime. 11.15 The Financial World Tonight. 11.30 Today in Parliament. 11.45 News.

For Schools (VHF only) 9.45 a.m.-12.00 and 2.00-3.00 p.m.

BBC Radio London

206m and 94.9 VHF

6.00 a.m. As Radio 2. 6.30 Rush Hour. 9.00 Weekly Echo. 9.30 London Live. 11.03 In Town. 12.03 p.m. Call In. 2.03 206 Showcase. 4.03 Home Run. 6.10 Look, Stop, Listen. 7.30 In Town (as 11.03 a.m.). 8.50 Breakthrough. 10.03 Late Night London. 12.00—Close: As Radio 2.

London Broadcasting

261m and 97.3 VHF

5.00 a.m. Morning Music. 6.00 A.M.: non-stop news, travel, sport, reviews, information. 10.00 Brian Hayes. 1.00 p.m. LBC Reports including George Gale's 3 O'clock Call. 8.00 After 8—with Ian Gilchrist. 9.00-1.00 a.m. Nightline.

Capital Radio

194m and 95.8 VHF

6.00 a.m. Graham Dene's Breakfast Show (S). 9.00 Michael Aspel (S). 12.00 Dave Cash with Cash on Delivery (S). 3.00 p.m. Roger Scott with his Three O'clock Thrill (S). 7.00 London Today (S). 7.30 p.m. Adrian Love's Open Line (S). 9.00 Nicky Horne's Your Mother Wouldn't Like It (S). 11.00 Tony Myatt's Late Show (S). 11.55 Moment of Terror. 2.00 a.m. Peter Young's Night Flight (S).

Seattle Slew poses $12m. question

WITH NO RACING in Britain today because of waterlogging at both *Plumpton* and Leicester (where the is also no possibility of racing to-morrow) it *may* be a good time to take a look at that extraordinary horse, Seattle Slew.

As I *mentioned a few days ago* Seattle Slew's joint owners, Mickey Taylor and Dr. Jim Hill, seem on the point of retiring America's triple crown winner (Kentucky *Derby*, Preakness Stakes, and Belmont Stakes) and the horse's future seems as *uncertain* as ever.

Although millions of sports followers in the U.S. would clearly love to see the "Ugly Duckling" reassert himself, and prove himself one of the greatest thoroughbreds of all time, it is difficult to argue with the owners' feelings that discretion may now be the better part of valour.

Not only has Seattle Slew—covered by a $6m. policy—requiring a premium of nearly $150,000 a year, or approaching $3,000 a week—been an extremely sick horse *this* winter *following* a mysterious virus; but there is also still time to set him up at *one of Lexington's top* establishments in time for almost all of the 1978 breeding season.

Given a brilliantly successful summer and autumn campaign, with the requisite not only of a complete return to top form, but also the necessity of aveng*ing J. O. Tobin* at least once and of fending the young pretenders, Seattle *Slew might win* $750,000. His first season's stud duties could well be worth five times that figure.

At present Gainesway and Spendthrift Farms, the respective homes of Vaguely Noble and Apalachee, seem to be the leading contenders for his services. At either of these establishments, Seattle Slew, a $17,500 yearling purchase, would be syndicated into 36 shares with a value on each share of between $300,000 and $350,000—putting a figure of around $12m. on his head.

The temptation to retire him *now* is clearly there, and I shall be surprised if a deal is not quickly tied up.

RACING

BY DOMINIC WIGAN

TOP STALLION SYNDICATIONS IN THE U.S. IN RECENT YEARS

1978	Seattle Slew	$12m.?
1977	The Minstrel	$9m.
1977	Blushing Groom	$6.4m.
1976	What a Pleasure	$8m.
1976	Youth and Empery*	$12m.
1975	Wajima	$7.2m.
1973	Secretariat	$6m.

*A two-horse package

Boycott injured, but should be fit for Test

CHRISTCHURCH, Feb. 5.

NEW ZEALAND'S Test bowlers *had their confidence helped* here to-day by an injury to England captain Geoff Boycott and another batting failure by the touring side on the first day of the three-day match against Canterbury.

Boycott suffered a badly *bruised left elbow in the second* over, when he was hit by a delivery from Dayle Hadlee that *reared nastily*.

It was a bad start for England in their last match before the first Test, which starts in Wellington on Friday.

Hadlee, his younger brother Richard, spinner Stephen Boock and former New Zealand captain Bev Congdon, who are all in the Test side, rattled out England for 173, painstakingly made in $5\frac{1}{4}$ *hours*.

Canterbury were 26—0 at the close. Richard Hadlee was the main destroyer with 5—50.

Although in considerable pain, the England captain batted on for another seven overs, he then left the field for medical attention. He expects to be fit for the Test.

After ice-pack treatment for most of the day, Boycott was able to resume his innings nearly five hours later at the fall of the seventh wicket. He was the last man out, caught off Richard Hadlee, having scored 11. Chris Old was top scorer with 51 and Derek Randall hit 32.

Reuter

هكذامن الأحل

Covent Garden

La Bayadère by CLEMENT CRISP

At Saturday's matinee Alfreda Thorogood and Wayne Eagling led a performance of *La Bayadere* which, despite uncertain moments, was markedly satisfying. The Royal Ballet seems to me to behave rather secretly about Miss Thorogood. Possessed of the purest classical style in the company, we do not see her often enough in those major roles of the traditional repertory for which her gifts suit her well. With beautiful line, an almost transparent manner that excludes everything save the dance itself she is a joy to watch, and her Odette-Odile remains for me the most appealing English intepretation since Fonteyn's. Her account of Nikiya's first dances was exquisite: luminous, poetic, placed at the still centre of classicism. Then, inexplicably, the role seemed to grow dim, as if either her stamina or her belief in the character had faded. It is plain that for Miss Thorogood, as for Wayne Eagling, continuity of performance is essential: a regular sequence of appearances in a part is the only sure method of allowing artists of this stature to understand and build interpretations. Isolated, "one-off" casting places undue stress upon a performance and makes it a matter of tension rather than triumph.

I reported with great pleasure on Eagling's debut as Solor in the Royal Ballet's canvas slum in Battersea Park last summer. His imaginative grasp of the part on Saturday was as impressive as his technical statement of it. The first entry spoke of a character rather than of a danseur in show-off mood; the exit in pursuit of Nikiya, trunk and arms flung back as he disappears from view, conveyed the warrior's ecstasy at finding his beloved among the Shades; even an Isadora-ish run with yards of white gauze fluttering at his throat made sense as a gesture. (The scarf, incidentally, is too meagre: it should be twice as wide to allow it to billow like night mist. At the moment it is more like a bandage.)

Eagling's view of the dances had a generosity of impulse that was magnificent. There is nothing apologetic or under-powered about his dancing: grand, bold poses; a big pulse of energy; a rich consistent tone—as of a 'cello; all these show him as a Solor to admire. There were faults, as when a variation ended awkwardly, but with a well-spaced run of performances to polish rough patches, Eagling could rival the best contemporary interpreters. If we are to produce dancers to match Makarova and Barishnikov—the essential models for to-day—we must emulate the high seriousness of preparation, the handing-on of interpretative traditions, which enables Leningrad so consistently to school great artists.

The work of the corps de ballet in *Bayadere*, formerly excellent, had a demure adequacy on Saturday. I missed the sense of bodies stretched and poised in arabesque to evoke ghostly figures materialising in the night with complete inevitability. As a general note I would suggest that *Bayadere* is not a ballet in which the performers need smile. Despite an occasional perkiness in Minkus' rumtitummery, the Shades are like sylphides or wilis, and serenity rather than smirks should be the order of things: in the trio of soloists Judith Howe, with her eloquent arms, looked happily cast.

Royal Exchange, Manchester

The Dybbuk by MICHAEL COVENEY

S. Anski's extraordinary Yiddish drama has been a stalwart of the Habimah repertoire ever since Stanislavsky's disciple, Vakhtangov, produced it in Moscow in 1922. Braham Murray has taken the translation made by Henry G. Alsberg and Winifred Katzin for the New York production of 1925, in which Mary Ellis, resting her voice from the strains of operetta, played the rich girl, Leah, whose body is visited by a dybbuk, the spirit of her dead lover.

On one level, the piece is about daemonism, and carries a charge for modern audiences familiar with films like *The Exorcist* and *Audrey Rose*. But it is also a deeply reverberative fable of atonement, for Leah and the cabalist student, Channon, are the respective offspring of two old friends driven apart by the world. One rich, the other poor, their predestined marriage is denied by Leah's father, Sender, who wants a life of ease and luxury for his daughter and prepares to marry her off to a wealthy family.

By all accounts, the visit of the Habimah to the World Theatre Season of 1965 suggested to English audiences that *The Dybbuk* was no more than impenetrable hokum. The same cannot be said of Mr. Murray's production. In fact, not very much at all can be said of Mr. Murray's production beyond sadly reporting that it is deathly dull. Elizabeth Romilly as Leah is too much of a wilting English rose to convey anything beyond some form of extreme stomach cramp as a result of her mystical visitation. While Channon is played in the first act by Ian Hastings as a lisping dreamer instead of as a social outcast driven to cabalistic rites by sexual frustration. The love affair inhabits no higher plane than that of wistful romance; and Leah comes to the wooden synagogue to throw herself on the holy scrolls with all the committed flair of Mrs. Thatcher inspecting a steel foundry.

J. C. Landis, another translator from the Yiddish, has observed how the structure of the play depends on Channon dominating the first act; Leah, the second, Rabbi Azrael, the third; with the fourth working as a fusion of all interested parties. The learned Rabbi of Miropol is called in to investigate the case and exorcise the dybbuk. He does so by invoking the word of the Torah and calling Sender's deceased friend from his grave to give evidence.

It is at this point that we learn of the family pact, and Sender is directed to provide money for the poor and to pray. In exchange, his old friend returns quietly to the cemetery, hatchet buried. As the attendant minion dons white shrouds and takes up black candles, the dybbuk is driven from Leah's body. But, in a finale of breathtaking poetic justice, the spirit returns to claim her soul and the Rabbi is thwarted in his race to fix the union desired by Sender as Leah and Channon are bound together in a dazzling light under the marriage canopy.

Anski insisted that his play was a realistic one, acted out by mystical characters. That collision of the country society of Brainitz with the Rabbi's Hassidic jurisdiction is never explored by Mr. Murray, except in the most feeble of terms. On the eve of her arranged marriage, Leah is danced off her feet by a group of crippled beggars before her fateful visit to Channon's grave. What should be a scene of orgiastic horror turns out a decorously begrimed tea-party. Similarly, there is no arresting echo to the Rabbi's imprecation that this maidenly branch of the imperishable tree of Israel should not be blighted. It is more a case of shielding the virgin from a fate worse than death. However, John Bennett manages a performance of gravel-voiced authority as the hesitant Rabbi, and Anthony Bowles has provided some splendid music for the songs which are splendidly sung.

Teatro alla Scala, Milan

I masnadieri by RONALD CRICHTON

Three Verdi operas in succession opened the Scala's bicentenary season. *Don Carlo* and *Un ballo in maschera* have been discussed here. The third was an earlier work, the only opera Verdi wrote for London—*I masnadieri* (Her Majesty's, 1847). It never became a favourite. There have been sporadic revivals in Italy (Piscator mounted the work in Florence) and in Britain the recent production by Welsh National Opera is proving a success. But the new staging in Milan is only the third at La Scala and the first there for over a century. Pier Luigi Pizzi both designed and produced: in the latter capacity, this was his Scala debut. The conductor was the young Riccardo Chailly, son of the composer Luciano Chailly, also making his debut at this theatre, where he has been acting as concert assistant to Abbado.

I masnadieri is based on Schiller's *Die Raeuber*, a turbulent Sturm und Drang drama of a rejected, misfit son who joins a guerilla band and kills his intended bride to prevent her witnessing the extent of his degradation. Pizzi stages the turbulent incidents against very restrained sets, mostly dark grey relieved with white or black, with misty suns and sometimes the glow of distant fires—of destruction, not of domestic cheer. The sets are extremely elegant in the Italian way. Each feature—rock, tree, door or table—is placed with scrupulous care for balance and proportion.

On their austere level the designs compel admiration, but they don't much help the drama. There is no reason why an ultra-romantic drama full of movement should not be played against scenery of classical restraint, but in this case the effect is chilling and de-personalising. Costumes are mostly low-keyed as well: the brigands all look more or less the same, which may be right for to-day's guerillas but *doesn't suggest a motley* rabble in early 18th century Germany.

Pizzi's handling of the action is simple, clear, formal, again rather too restrained for a story in which almost everyone is footloose, uprooted or at the least deeply disturbed. He has neglected some elementary points like the way singers, if unchecked, use their arms. Old tricks like semaphoring and chopping the air more or less on the beat duly make their appearance. Though there is plenty of gloom, there isn't much impression of individual desperation. Of the brothers Moor, Carlo the outlaw was the more persuasive: Ottavio Garaventa started rawly but by the end was singing with the incisiveness of a useful dramatic tenor. As Francesco, the stay-at-home usurper of Carlo's rights, the baritone Matteo Manuguerra phrased musically but his tone was dry and his movements stiff.

Amalia, the role tailored for Jenny Lind, fell this time to Adriana Maliponte, an Italian lyric soprano of a familiar kind—well-rounded tone without much variety of colour or inflection, of agreeable quality except when, in her case, it suddenly goes pinched. Miss Maliponte does not have the degree of flexibility Verdi could assume in Lind. All the same, she did not deserve the uncivil reception she had from part of a first night audience not notable for perceptiveness—later in the evening a fine stretch of sustained singing by Yevgeny Nestorenko as the brothers' father, Count Maximilian Moor, was received in silence. Another bass of distinctive quality, *Maurizio Mazzieri*, sang the small but important role of Pastor Moser. Seeing *I masnadieri* soon after *Don Carlo* it was tempting to find in Moser an early anticipation of the Grand Inquisitor.

The most positive contribution came from the conductor. *I masnadieri* may be less likely to win new esteem and popularity than, say, *Nabucco*, *I due Foscari*, or *Ernani*. It is competently, concisely written with already a high degree of professionalism. But though rarely memorable, the score is never dull — a fact that Riccardo Chailly's lively, sharp-edged reading made perfectly clear. Sometimes Mr. Chailly, as young conductors of early Verdi are inclined to do, confused speed with vitality. But he atoned with the grand effect of one or two passages at the beginning of scenes where Verdi packs an explosive charge of feeling into a few bars of orchestral music. A final word of admiration for the Scala programmes. They cost an awful lot, but they include the libretto in full, much good and valuable information, excellent illustrations, and absolutely no drivel about the performers.

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Greenwich

An Ideal Husband

by B. A. YOUNG

"The music is in German," says pert Mabel Chiltern to Lord Goring, the ever-young, ever-idle, ever-wise. "You won't understand it." It is a Schubert quartet in Robert Kidd's production, German with an appropriate Viennese accent; for at large in Sir Robert Chiltern's party is Mrs. Cheveley, the sinister adventuress from Vienna, in a glorious gown of heliotrope by Bernard Culshaw.

Anna Carteret is as pretty as paint in the part, but there is something intrinsically villainous about her self-assurance at a party where her very presence is somewhat mysterious. What made sweet old Lady Markby ask her, when as we can see from Barbara Atkinson's playing she is the most guileless old darling in the world? Anyway, it's no surprise when Mrs. Cheveley begins to blackmail Sir Robert ("Under-Secretary for Foreign Affairs at 40, that's good enough for anyone") into a Parliamentary deceit that will bring her a fortune. Luckily she leaves behind her a jewel that Lord Goring had given her years before, and luckily he is the one to find it, and he uses it to counter-blackmail her and all is forgiven, though not without a good deal of subsidiary bother.

The whole string of subsidiary bothers that precede the final curtain are so ludicrous that Wilde must by then have realised how absurd the whole set-up was and started to mock it. Probably the epigrammatic dialogue floated the plot above the judgment of the early audiences, but now that it has been imitated, sometimes successfully, by others for half a century the buoyancy is gone. "Personally I have a great admiration for stupidity," says Goring. "A kind of fellow-feeling, I suppose." Frank Barrie, his face made up to deepen the romantic hollows of his cheeks, throws these things of prettily enough, though I miss the sense of over-breeding required. Naturally he would admire stupidity, just as he would disparage conventional things like fathers, duty, charity or the House of Lords.

Robert Swann as Sir Robert lacks the panache for a wealthy and successful young man; he never meets his opponents with anything resembling pride. Lucinda Gane as his wife is pride itself, though too attractive to be a busy philanthropist and the embodiment of high moral tone. She has some difficulty in speaking lines like "That great inheritance throw not away, that tower of ivory do not destroy" and indeed who wouldn't? Her sister-in-law, pert Mabel, who marries Goring and deserves no less, is played with attractive pertness by Michelle Newell.

I suppose this play and *A Woman of No Importance* must be taken down and dusted from time to time, but it is no good expecting us to take them seriously. There were as many laughs around me at the bizarrerie of the situations as at the wit, and really some of the situations are the more bizarre matter. The wit is simply laid on like icing; in the last act there are two long passages — Mabel on Tommy Trafford and Lady Markby on her husband and on curates — that serve no function in the plot at all. I believe that Wilde, having exhausted the possibilities of wicked women from Vienna, realised that this was not the kind of play he could write, and wisely set himself to make fun of the whole business in *The Importance*.

Still, there is always this to be said for Wilde, that you tend to get, as here, some neat sets that waft you into a more elegant age, and dresses, as also here, that are exquisitely lovely.

Trevor Humphries

John Dowie and Jeannie Warren

Covent Garden

Ariadne auf Naxos

Around *Ariadne*, an opera that is at the very least a delightfully witty entertainment and other more serious and beautiful things as well, the Royal Opera has provided a dark and rather dismal frame. A black backcloth wraps the to-and-fro of the Prologue in an atmosphere of sinister portent; masked dummies peep out from behind pillars, impinging and intruding on the action. Last season, when the production was new, the effect was dampening. But at Thursday's revival it seemed that the producer John Copley had now managed to bring the participants forward, giving each a sharper identity and focus, penetrating the visual monotony and gloom. The work offers him a host of small, detailed comic parts to polish up, and this time round their ensemble was much more spiritedly contrived. Small things told as they should. The despairing kindliness of Geraint Evans' Music Master, the supercilious elegance of John Fryatt's Dancing Master, Paul Hansard's magisterially disdainful Major Domo were of special vividness.

In the opera proper the visual handicaps are more serious still, and on this occasion were seldom overcome. But the problem here lay equally in the pit: Bernhard Klee, who had shaped the Prologue with firmness and a nimble hand in balancing Strauss's tricky small orchestra, was prey to fits of sleepiness, dragging sections of Ariadne's monologue in Zerbinetta's *scena*, and leaving far too much of the endless final duet to work up its own momentum. The house itself is too large for the opera, but earlier Mr. Klee and the orchestra seemed on the point of persuading one otherwise. A sudden glitter and flash around Ariadne's "Was hab'ich denn getraeumt?" were the exceptional moments in playing that was otherwise delicate but often slack (and on occasion, in important oboe and horn phrases, ill-pitched). The music needs to be played out into the house a good deal more; there is plenty of space in which to do it without overstretching the singers.

Yvonne Minton's Composer has discovered a good deal more of the richness and radiance, the full-heartedness, that the music of her scenes so fully deserves. Although in big climactic utterance, the voice was not pouring out with the complete freedom and evenness of which it is capable, this is now a worthy impersonation of an endearing and generous character, the single person in this otherwise determinedly artificial diversion to catch at our emotions. The scene with Zerbinetta went well, because Britt-Marie Aruhn, a Swedish soprano new to the house, understood exactly how to engage and then disengage with the boy in the right half-serious manner. Something of Swedish chalkiness colours Miss Aruhn's timbre in an attractive and individual way: the tone is not conventionally pretty, but it is, for a Zerbinetta, unusually interesting, and she did clear and brave things with it (and misfired once or twice in its highest reaches, but no more seriously than a good Zerbinetta on a nervous first night will).

Gratitude that Marita Napier was available for the title role when Heather Harper became ill, and admiration that at short notice she managed it entirely without accident, must still be tempered by regret that her singing was so uneven—a maddening mixture of unsteadiness in the low range, steely brilliance in the high, vagueness one moment and real, soaring grandeur the next. In the final duet the voice was more consistent. Her Bacchus, Alberto Remedios, at first unhappily heard from off-stage through crude amplification, was in good form, clean and vigorous. A veil, though not of the kind finally dropped by the designer, should be drawn over their costumes.

MAX LOPPERT

Bush

John Dowie

John Dowie is a tall, skinny young man with untidy hair. He wears an unpressed grey suit and an open shirt, with plimsolls on his feet but no socks, and when he drifts on to the stage you only know he isn't a latecomer from the bar downstairs because the house-lights have gone down and the Bush has a very civilised attitude towards latecomers, it doesn't let them in.

At the far side of the stage, a musician sits behind an electronic keyboard and in front of a shining curtain of gold tinsel; and in the centre of the stage stands a microphone through which Mr. Dowie insists on projecting his songs, although the stage is less than 20 feet square and no one in the house can be more than 30 feet away from him. This is one of Mr. Dowie's weaknesses. To give a cabaret-style entertainment you must have close contact with your audience. Mr. Dowie hides from his.

Perhaps this is because he hates us. He hates most things. His first songs are about fat men with moustaches, itching, Wimpy Bars and the Belgians, and he hates them all. Later he expresses a certain curious affection for his eyebrows, in a song that reminded me wistfully of Professor Ivor Cutler, and for his razor. He also sings a number called "I'm a bugger" which suggests he may have other likings, but he returns to disapproval again in a final number about premature ejaculation.

Mr. Dowie, you will have gathered, is something of an eccentric, and good for him. What he is hardly anything of is a comic. The improper subjects he chooses might pass if presented with artistry; but not only are they rolled up in hopelessly rough writing, they are delivered with little sense of timing or projection. The three or four sketches he plays with Jeannie Warren have glimmers of promise in their ideas, but never lead to the punch-lines that, even in 1978, revue-sketches must end with.

I must record that the director of this curious evening is *Simon Stokes*, and the designer Dusty Hughes, so evidently I am for once at total variance with the Bush's management.

B. A. YOUNG

Elizabeth Hall

Dinorah Varsi

by David Murray

Dinorah Varsi's all-Chopin recital yesterday afternoon offered the same major works as Howard Shelley's, six weeks ago: the B-flat minor Sonata and the 24 Preludes. Miss Varsi is Uruguayan, and the lineaments of a Spanish tradition can be discerned in her playing. Founded much more on dance than on song, it gives pride of place to rhythmic acuity, to executive dispatch and precise rhetoric, to energy and bold colours there is less room for morbidezza, for half-lights, for dwelling upon a suggestive harmony. Where Shelley spun an expressive rubato over a plain, sometimes limply even metre, Miss Varsi did just the contrary; her rhythms were always full of resilient life — and therefore admirably flexible—but her left hand was consistently more interesting than her right.

She is an intelligent musician, and she kept melodic blandness safely at bay. Every prelude had its character neatly fixed, convincing on its own terms even where other pianists have shown how much more there is to be discovered. Chopin's slowest pieces offer the least room for the exercise of her particular strengths, and she prudently took all of them at speeds a notch or two above the conventional Largo or Lento. Inner parts and basses were invested with vigour—indeed the cantabile B-flat prelude came nearest to counting as a failure just because its drooping melody sat so uncomfortably on its surging accompaniment. The virtuoso point of two of the Etudes she played, the "Winter Wind" and the one in racing thirds, was similarly obscured by obtrusive underpinnings.

The Sonata made a crisply outlined suite, which is after all what it amounts to (one can hardly argue with Schumann about that). Miss Varsi's attack was exciting, and the big gestures of the music were vivid; within the individual movements she did nothing to grace Chopin's *hopelessly exiguous transitions*. The final Presto was breathless, efficient, and senseless. There is something extremely satisfying none the less about Miss Varsi's sheer drive (which is firmly managed and directed, not a headlong rush); there is a proud refusal to ease any difficulty by a discreet slackening here or there, a robust panache which even in Chopin compensates for melodies rendered into sensible prose.

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Evidence for caution

THANKS largely to the activities of the House of Commons Expenditure Committee, an acute and well-informed discussion of the economic prospect is now taking place at a season of the year when traditionally there was a hushed silence *ahead of the official judgment.* The Committee's own insistence *on discussing expenditure plans* in a proper economic context *has been the provocation; the* development of many rival *schools of economic forecasting,* and especially those giving great weight to *financial factors,* has provided the necessary material even in the weeks while the Treasury's own forecast is still being prepared.

Under pressure

The general picture that is emerging is fairly clear, though *there is plenty of room for* disagreement over details. The sharp rise in sterling since the last official forecasts were prepared *has much the same influence on the outlook as any other method of providing a* sudden boost for real incomes—*for example, an accelerated rise* in wages. In the short run, consumption is likely to be higher than was earlier supposed. However, as industrial surveys have confirmed, profit margins are correspondingly under pressure, and investment may lag behind earlier forecasts. This is happening at a time when it is generally accepted that world trade will grow only slowly.

On timing grounds alone it no longer seems appropriate to give a large fiscal boost *to* consumer demand this spring, just *when it is likely to be rising* most rapidly as a result of falling inflation and rising wages: and this message is reinforced by three other considerations. First, the persistent evidence of a shortage of skilled labour, both from surveys and from the fact that vacancies have *risen sharply while output is* still stagnating, is a warning that output cannot be expected to respond very sharply to improved demand. Overdoing reflation would simply inflate imports. Secondly, there is unusual uncertainty about the forecast itself: a fall in the savings ratio to more normal levels would produce a *bigger* rise in demand than is now officially forecast. Finally, and potentially most important, too much fiscal action could undermine financial confidence.

Indeed, the financial markets *already seem to be anticipating* the worst likely outcome, and discounting an over-expansionary Budget followed by excessively tight credit. These fears, which seem to be partly the result of an outburst of competitive forecasting by City institutions are probably overdone. The Chancellor and the Prime Minister are committed to tax reductions, but not to any specific figure for reflation, and have shown acute awareness of the need to keep Government borrowing within the capacity of the market. Meanwhile, the fact that both inflation and investment intentions are falling will reduce *the need for corporate* borrowing. The experience of *other countries* suggests that economic revival based on falling *inflation does not lead to* financial strain. Only an irresponsible *Budget would be* likely to do that.

The prospect

The prospect, then, is for a *relatively subdued recovery, led* by consumption rather than by investment or exports. Fortunately, with a strong current balance and an improving oil balance, that need not imply a *return to stop-go:* but both the industrial and the financial situation argue for a cautious acceleration. In present circumstances this *may* mean a somewhat smaller fiscal injection than Ministers may have been contemplating in the first euphoria of financial recovery. *The best way to embody such* caution in the Budget would be *to stick to any existing plans for* the relief and reform of income tax, but to get a larger offset through indirect taxes—notably the duties on petrol, tobacco and the like. The best way meanwhile to restore financial confidence, which has sagged recently, would be to give an authoritative warning to the public not to expect the moon *in April.* What the voters may hope for, the City fears.

Schmidt changes his team

LIFE HAS not been very kind recently to Herr Helmut Schmidt, the West German Chancellor. Two months ago, *after his universally admired* handling of the Mogadishu *hijacking and a clear vote of confidence* at his party's congress, his position looked sound enough. Now a succession of events has conspired to make his Socialist/Free Democrat coalition look much less secure —and few of them can be said to be entirely his fault.

Revelations

Most of the Government's recent misfortunes have occurred in areas under the tutelage of the Ministry of Defence. First there was December's shattering spy scandal, in which it was learned that important Western military secrets had been passed to the East by a former Ministry employee. Next came a series of bugging disclosures which seriously embarrassed the Minister, Herr Georg Leber.

The *spate of revelations* was such as to arouse speculation in *Bonn that a deliberate plot had* been mounted to discredit him. *Whatever the truth of the matter,* Herr Schmidt, by accepting Herr Leber's resignation at the end of last week, has acknowledged that his Minister had become a serious electoral liability.

With Friday's major Cabinet reshuffle, Herr Schmidt is *clearly hoping to put the affair* swiftly behind him, particularly *as he faces a crucial series of* provincial elections later this year. But it may not be all that easy. In the first place, inquiries into the extent of unauthorised bugging are likely to continue. In the second, the *men appointed to the two most* important posts in the reshuffle, *Herr Hans Apel, who replaces* Herr Leber at Defence, and Herr Hans Matthoefer, who replaces Herr Apel at Finance, are both totally inexperienced in their new fields. Herr Apel has in the past made his dis*taste for dealing with military* matters abundantly clear, while *Herr Matthoefer, in former* posts, acquired a reputation for over-spending his budget.

The changes can only help to strengthen the position of the experienced FDP Ministers in the Cabinet, all of whom remain in their posts. With the important portfolios of Foreign Affairs, Agriculture, Economics and the Interior in its hands, *the FDP is already often viewed* as the tail wagging the Socialist dog. *If Herr Matthoefer is slow* to get to grips with the Finance *Ministry more power will accrue* to the already influential Count Otto Lambsdorff, the FDP Minister of Economics.

That does not necessarily mean, however, that the FDP will want to stay in the Cabinet regardless of anything that may happen in the coming months. If the SPD does badly in the four provincial elections which start in June, the pressure will be on the national FDP to *follow the example of some of* its supporters in the provinces *and cross the floor to join the* Christian Democrats, forcing *the Socialists into opposition.*

Similar pressures would arise *if the coalition were to be* defeated in the Bundestag by rebels from *within the SPD.* Internal Socialist dissent has brought the Government's paper majority of ten down to as low as one in recent votes on new anti-terrorist legislation, and the issue will be back before the Bundestag again later this month.

Opposition

So far, two powerful factors have combined to keep the FDP in coalition with the Socialists. The first is the divided state of the opposition, exemplified by the constant tension between Herr Helmut Kohl, the CDU leader, and Herr *Franz-Josef* Strauss, leader of the Bavarian CSU. The second is Herr Schmidt himself, a man with whom the FDP knows it can do business and who is head and shoulders above any other candidate for the Chancellery.

But the FDP is not going to sit idly by and watch its fortunes dragged down by the Socialists if the forthcoming elections show a serious loss in their popularity. With the next national elections not due before 1980, the FDP leaders would have plenty of time to prove themselves in a new partnership. *A great deal could* thus depend on the performance of Herr Schmidt's new Ministerial team in the coming months.


Ian Smith


Bishop Muzorewa


Ndabaningi Sithole


Joshua Nkomo


Robert Mugabe


Dr. Owen

Britain and Rhodesia: no easy way out

BY BRIDGET BLOOM, Africa Correspondent

RHODESIA appears to be becoming a live issue in British politics once more, after several years during which it was left to the Government of the day to make the running.

Every time there is a Commons debate the traditional *differences have been aired* between Labour Left and Tory Right, *with snipings about concern for kith and kin and* mutterings *about supporting* terrorism. But for a decade, most MPs of all parties have been content to let the Government try its hand at settlement.

Interestingly, if not wholly unpredictably, this situation *seems to be changing fast.* Dr. David Owen, the Foreign Secretary, was *noticeably* irritable at his Press conference *in Malta following* the talks with the Patriotic Front. He has of course, been criticised both by opposition MPs and in sections of the Press for meeting the Front at all and the criticism—which has tended to suggest that he is encouraging Patriotic Front intransigence—clearly angered him. "Unless the British public shows better understanding of the problems of bringing about peace, then *they won't understand why I* am here," he snapped at one *point.*

For its part, the Opposition has shown signs of wanting to make a political issue of Rhodesia. Mrs. Margaret Thatcher waded into the debate last August, before the terms of the Anglo-American proposals had been published, to say that *if what she had heard of* them were true, they would *offer less than a fair deal to* Rhodesian whites. Immediately before the Malta talks, Mr. John Davies, the shadow Foreign Secretary, suggested in a BBC radio interview that if the terms were right it would be impossible for a British Government not to recognise a settlement which came out of the current "internal" talks in Rhodesia.

In the Commons debate on Rhodesia last Thursday, Mr. *Davies declared to Conservative* cheers that it was "intolerable" that the Government was apparently only prepared to accept a settlement on the basis of the *Anglo-American* plan. The polarisation of British attitudes to Rhodesia stems directly from the polarisation within Rhodesia itself. As the nationalists of the Patriotic Front move further and further away from the so-called "internal" black leaders, *and as the latter seem to get* nearer to a settlement with Mr. *Ian Smith, so the* dilemma for British politicians, who in the *end have to pass the legislation* enabling Rhodesian independence to be recognised, becomes more and more acute.

Legitimate debate

The trouble is that the argu*ment—whether* it be in favour of the internal talks, the Anglo-*American* proposals or any other possible solution—is in *danger of getting overheated:* and in such circumstances, the *real complexities of an issue* can be lost.

There is of course a *perfectly* legitimate debate about whether the British Government might be forced to abandon its proposals, and come down in favour of a so-called internal settlement. Dr. Owen hinted at that possibility, in response to a statement from Mr. Jeremy Thorpe, the former Liberal leader. But whichever way *British policy* ultimately goes, account should surely be taken *of the very real obstacles which* could inhibit either type of settlement now being so heatedly canvassed.

The Anglo-American proposals which Dr. Owen and Mr. Young discussed with the Patriotic Front leaders in Malta last week have been fairly exhaustively analysed since their publication on September 1 last year. The main problem of the Anglo-American plan is that while it is a genuine attempt to steer a middle course through often radically conflicting demands, it has not yet been fully accepted by either the *Patriotic Front or Mr. Smith's* Government. Two "internal" leaders, Bishop Muzorewa and the Rev. Sithole, have accepted it as a basis for negotiation, but they do not have the guns.

In some respects, the Malta *meeting* was encouraging, because for the first time since *the plan* was published, the PF was prepared to discuss it. The PF *may be moving toward some* compromise on the timing and control of elections, and Dr. Owen may feel able to give the nationalist leaders a greater say during the transitional period before independence—yet what happened in Malta was largely shadow boxing. The PF does not accept key proposals—such as a UN peacekeeping force—of the Anglo-American package, and as the war proceeds its de*mands escalate. Neither does* Mr. Smith show the least readiness to give up power according to its provisions. Unless he does—and both Whitehall and Washington still seem at a loss as how to make him do this —or unless the PF moves, the proposals will not get off the ground.

As for the negotiations in *Salisbury* between Mr. Smith, Bishop Muzorewa, the Rev. Ndabaningi Sithole and Senator Chief Chirau, perhaps one should recall the old adage *about many a slip 'twixt cup and* lip. Bishop Muzorewa, who the white Rhodesians believe commands majority black support, and whom they thus cannot afford to leave out of the talks, *stayed away from the opening* session in December and has gone back now, after *several* days' absence, only, apparently, to query a fundamental aspect of an agreement which all the other parties thought had been finalised. Even if he does not walk out again, it is far from clear *to-day whether he will* accept separate white voting rolls. And there are many pit*falls ahead.*

What has so *far* been agreed, is that certain provisions in a *new majority rule constitution* should be entrenched, which would mean that they cannot be changed except by more than three-quarters of the new MPs, including some whites (the precise "blocking" percentage must be up in the air until the *provisions for electing the white* MP's are agreed). The provi*sions cover the independence of* the judiciary, a justiciable bill of rights, *dual citizenship,* remittable pensions for civil servants, and an independent army, police, prisons and public services.

Once this list is completed by agreement on the white vote, an awesome number of other issues will have to be dealt with by a multi-racial transitional government which will presum*ably include Mr. Smith and the* three black leaders. These range from appointment of judges, permanent secretaries and army commanders—all of whom are currently white and whose wholesale retention could make the achievement of majority rule in any decision making sense look very hollow—to the actual timetable for independence, which Bishop Muzorewa wants by September this year, and Mr. Smith insists should take two years.

Given the likely black compromises on the role for white MPs, agreement on such points could be vital in "selling" the terms of an agreement locally and internationally.

A point of particular *relevance to* international recognition is the promise of free and fair elections. Many people in Britain, including Mr. John Davies, have suggested that a "massive turnout" at such elections could be the basis for international recognition. But can elections be free or fair against a continuing war, or where those controlling elections in rural areas are likely to be the white officials of Mr. Smith's Government, and where the absence of the two wings of the PF will reduce the *existing parties from six to four?*

Mr. Smith and the internal nationalist leaders would clearly hope to get some form *of international supervision for* the election. But that conjures up the recognition problem. Unless the PF participated (which is highly unlikely for reasons outlined below) the UN would not send observers, for that would be to tacitly recognise the internal settlement as a whole. But if the UN refused observers, could Britain send them unilaterally?

Anglo-American proposals

This seems improbable, not only because the Government is committed to the Anglo-American proposals, but because Britain is tied by innumerable UN resolutions, many of which were British sponsored, to a UN endorsed solution. It has been suggested in the past (especially on the Tory right) that Britain should flout the UN. But it is doubtful *whether any British Govern*ment, faced with the problem which is still recognised world wide as being ultimately its sole responsibility, could do so. The dilemma here may be particularly acute for Dr. Owen if he were to accept the internal option. With Washington's backing, he was responsible for the last Security Council resolution last September, which tacitly endorsed the Anglo-*American proposals.*

If there are so many prob*lems associated with the inter*nal settlement as currently envisaged, what about the possibility, frequently canvassed in the past few months in Britain, in Rhodesia and elsewhere, that the Patriotic Front as a whole, or elements of it, might be enticed back to take part? While Mr. Mugabe is ruled out by Salisbury, Mr. Nkomo's return could be acceptable there.

Predictions about Rhodesia *are dangerous, for its politics* are murkier than most. But the reasons why Mr. Nkomo should want to stay out are stronger than those for his going in. He once tried and failed to negotiate bilaterally with Mr. Smith (whom he now deeply mistrusts); and he also mistrusts and seems to have a deep personal antipathy for Bishop Muzorewa (to say nothing of the Rev. Sithole, from whom he split in the early 1960s). More important than *all this,* his own army has been built up from a base less than *two years ago of some* 700 trained men, to an estimated 8,000 men now, with probably another 8,000-10,000 waiting for training. He has not deployed most of these men yet; he has close links with the Communist powers, as well as with the West and seasoned politician that he is, he must reckon that he can reap the whole harvest by waiting, rather than rushing at half or a quarter of it now.

Where does all this leave British politicians, and the *British Government?* Perhaps the only possible conclusion at *this time is that no easy conclu*sions exist, and certainly no simple remedies. All one can say perhaps is that if any solution which could improve the lot of the ordinary Rhodesian is to emerge—and it is very difficult to be optimistic—it will be helped rather than hindered by a bi-partisan and unemotional policy towards Rhodesia in Britain. Beyond that, one must hope that such a policy would *seek to bring the two parallel* lines currently represented by the internal talks and the demands of the Patriotic Front to a point of convergence.

MEN AND MATTERS

Scenting an Open and Shut case

The chemical industry smells a plot. Sensitive, as ever, to ways in which its image may be damaged or its actions called into question, it is pointing an accusing finger at the Open University.

The latest edition of the Chemical Industries Association's official newsletter, Alembic, alleges: "The Open University is maintaining a strange silence about a new course it is running in 1978." The course is called Control of Technology and will feature, says the association, the subject of the health risks of vinyl chloride monomer, *the gas used in PVC manufacturing.*

The *association says that* "as the prime source of information on *VCM in this country" it* offered to provide help, but despite several telephone calls and letters, the offer was spurned. "The course organisers refused to put the Association in touch with the person writing this part *of the course material or to* disclose any names."

The association charges: "The main set book for the course is 'The Politics of Technology,' a collection of papers edited by OU staff. None of the 28 papers are by a scientist or technologist in British industry: 12 are by U.S. authors, one by a Frenchman and five by mem*bers of the British Society for* Social Responsibility in Science, a small political pressure group representing a tiny percentage of U.K. scientists and technologists."

The plot theory is developed by listing people whose writings are quoted in the set book: "Tony Benn (Oxford: Politics Philosophy and Economics), *Ken Coates (Institute of Workers' Control, etc.),* and Mike Cooley (Lucas shop steward)." The argument is driven home by adding that the course's only *other set book is Nuclear* Power, by W. C. Patterson of Friends of the Earth.

But Robin Roy, chairman of the course team at the Open University, retorts the issue of vinyl chloride monomer hardly features at all. It is only mentioned—"without comment or *criticism"*—in the course's written material, not in the TV programmes. He says that the purpose of touching upon it at *all is to show "an interesting* example of co-operation between industry, the *Government* and the unions." Out at Milton *Keynes they clearly think it* quite appropriate that the Chemical Industries Association's initials happen to be CIA. . .

"Unlike the buses, there was another *one along in a* minute."

Joggers unite

Although Len Murray has helped to launch the latest fitness campaign, aimed at getting Britain on its toes the TUC is many years behind its Continental counterparts in keeping its supporters healthy. I learn that there may now be renewed attempts to join the country up *to the Socialist International* Sports Association, which was founded some 63 years ago. Under its present title of Comite Sportif International du Travail, it has national affiliates in all western European countries, except Britain.

Its most recent get-together was in Austria last September, when the CSIT organised a jamboree for more than 12,000 sportsmen and women from 18 countries. It seems that a few years ago a British Workers' Sports Association was formed, but soon *expired from lack of* funds, or maybe just energy.

There must be a chance here for general-secretary Murray to set an example by sending his general *council out jogging in* matching track-suits (red ones, I should *suggest).* They will need to be nippy to catch up *with the workers in Shanghai,* though: last week, the city's *running meeting drew 2,300* competitors.

The winner of the 10,000 metres, reports the New China News Agency, was Lo Chia-wei, a warehouse keeper, who has encouraged all his fellow-workers to become *runners.* The NCNA says that running has a mass following in Shanghai: "Every dawn sees teams of runners jogging the streets, leaning against the cold winter wind." It should be an example to us all.

Bowing out

A consortium of insurance companies has just been told by the Planning Committee of the City of London to revise its scheme for redeveloping Bow Lane's Well Court. This is the latest phase in the "Save Bow Lane" *battle,* in which more than 7,200 City-dwellers and workers peti*tioned to halt further demoli*tion of the so-called conservation area between Cheapside *and Cannon Street.*

At the southern end of Bow Lane, the *razing of a large* block of property has now begun; the demolishers estimate that their work will take them more than four months. The facade of what is coming down can be seen if you stand with your back to Mansion House underground station. Kept empty for seven years, it now looks conveniently ready for demolition. In due season, passers-by will be able to judge whether the new edifice, being developed by the Salter's Company and the pension funds of the Electricity Council, presents as human a face as what is now disappearing. The Victorian Society claims that the present demolition, and others in prospect, "make a mockery of conservation in the City."

Patching it up

A survey has revealed that the average British wedding to-day costs £2,200. Since it is also *reported that* 20 per cent. of marriages end in divorce (likewise an expensive activity), I was interested to see a timely advertisement in the Mid-week Recorder of Harpenden, Herts: "All Wedding Repairs. Mobile Body Service. Prompt Work."

Sadly, investigation disclosed a *less romantic reality.* A printer's gremlin had been at work: some snappy welding on battered cars was the intended offering

Starting point?

Metaphysical mind-bender in a Sunday school teacher's handwritten announcement, seen on the wall of a Surrey church hall: "God made creation."

Observer

FINANCIAL TIMES SURVEY

Monday February 6 1978

Euromarkets

Between 1975 and 1977 the Euromarkets enjoyed unbroken growth and profitability. However, profit margins came under increasing pressure last year, both in bond markets and in the commercial bank lending sector. Prospects are less rosy.

Future looking less bright

By Mary Campbell
Euromarkets Editor

LAST YEAR broke new records for the Euromarkets in terms of the volume of business transacted, if not necessarily in terms of the profitability for the banks. However, except in one or two isolated sectors, the best was concentrated in the early part of the year and business became progressively more difficult as time went on. By the beginning of 1978 the never-had-it-so-good atmosphere which was pervasive in 1976 had disappeared and bankers are looking forward with considerably less confidence than a year ago.

More detailed explanations for this change in each individual sector of the market emerge from subsequent articles; the reasons for the deteriorating position vary greatly from one sector to another.

For banks involved in the international syndicated lending (the process whereby several banks join together to make large loans, often to state-guaranteed borrowers, at rates of interest which are tied to money market rates) profit margins have been cut sharply in the last year while the banks are being forced to commit their money for ever lengthening maturities.

In the bond markets, the recent dollar slump and rise in dollar interest rates crowned a year where uncertainty had been the rule rather than the exception. Although bond dealers are still running books at a profit (because short rates are below long rates) they have taken a hammering with the fall in prices in the last few months.

The only substantial sectors of the market where business has held up—indeed increased—are the bond issuing in the so-called strong currencies, particularly the D-Mark and the Swiss franc, but also including the yen and sterling which if not traditionally classified among the strong currencies, seems to be treated as one for capital market purposes at present. But even in these sectors, there is a cloud to the silver lining: banks are much more uncertain about future prospects than for some years.

Problems

At the same time, the number of problems bankers have to cope with internationally is increasing day by day. The costs to the banks generally and to Citibank in particular of Zaire's default have probably long since outstripped what the banks earned on the loans before they went bad. Zaire is not alone in posing problems for the banks which will result in some of previous years' apparently easy international profits being whittled down.

In recognition of the importance of country risk, a large proportion of this survey is devoted to detailing the debt situation and future foreign currency borrowing and earning expectations of a number of individual countries.

In the bond market, some hard pricing decisions by lead managers recently have brought home to the Eurobond community that the underwriting fee cannot always be counted as sheer profit.

A key question facing the Euromarket institutions (and, at one remove, those borrowers and lenders/investors who depend on the smooth functioning of the Euromarket) is the extent of the expected decline in profitability of Euromarket business.

There is no doubt that profit margins have in the past three years been extremely high and considerable falls from the peak levels would be needed before bankers might be expected to start feeling the pinch. In the bond markets, although individual institutions may well find themselves having to admit to losses, even after taking the good years with the bad, the markets provide their own medicine: business slows down in bad times, to be run at a small loss by comparison with the profits earned on the high volume business of good days.

The situation for commercial banks is more uncertain. One of the most fiercely argued points among bankers in to-day's low interest-margin environment is the extent to which margins can be shaved before banks should, as far as their long-term relations with customers allow, opt out of the business.

The signing at Fishmongers Hall, City of London, last month of one of 1977's most notable loans: $1bn. for Nigeria. Seated left to right: Mr. Musa Bello, Permanent Secretary, Nigerian Ministry of Finance: Mr. Otto Schoeppler, chairman, Chase Manhattan Ltd.; Major-General Oluleye, Nigerian Commissioner for Finance: Mr. Frank Stankard, executive vice-president, Chase Manhattan Bank; Mr. O. O. Vincent, governor, Nigerian Central Bank.

One line of argument (among American banks) starts from the premise that the lowest acceptable profit margin on any individual piece of business is the yield which investors demand on the bank's equity. If investors start selling out when the dividend yield goes below say. 10 per cent., then no new loans should be booked which do not offer a 10 per cent. profit. If market rates go below that level, then the bank should buy up its own equity.

The U.S. banking authorities are believed to have been unhappy over Citibank doing just that so that this line of discussion has thus become of little more than theoretical interest. The real question which the banks have to decide is whether to keep their money on short-term deposit until margins rise again—thus giving up potential profits in the short-term in order to retain more lending capacity for the time when margins have recovered—or whether to go ahead with any piece of business which covers costs.

To take the argument one stage further back, the issue banks are having to take a view on the extent to which the rise and fall in profit margins on international lending in the last five years has been a cyclical phenomenon and the extent to which the 1974-75 jump in margins was triggered by special factors (oil price rises, Herstatt, the U.S. banking authorities' crack-down on capital ratios) which will not be repeated.

Early last year a number of U.S. banks decided to stop lending when the margins on medium term loans went below one percentage point. This gave a considerably higher gross profit margin, once one has allowed for fees and the fact that the margin is charged on the rate at which banks place deposits with other banks rather than the rate which they pay for the deposits they take in. Margins have since then fallen to ⅝ for prime credits. At least one of those banks in retrospect regrets the decision and now wishes it had used up all its 1977 lending capacity right at the beginning of the year.

In many respects the market situation now is similar to that in about the summer of 1973. The U.S. dollar sector of the Eurobond market was broken by currency turmoil early that year. The difference is that the yield gap had become unfavourable at the same time.

In 1973-74 there was a gap of about a year between the collapse of the dollar bond market and commercial banks' ceasing to push profit margins down in their international lending. The surge of international bank liquidity which came at the end of 1973 pushed the U.S. banks' capital ratios to breaking point and caused them to withdraw from the market six months' later.

If this situation is to be repeated one may expect an increasing strain on the U.S. banks' lending capacity during this year.

As is pointed out in a subsequent article, the economic situation in 1973-74 was different from what is current now. But there are also crucial differences in market terms, while U.S. banks' capital ratios are in a much happier state than in late 1973.

The major difference in the structure of the market is the increased number of banks relying on international business for an ever higher proportion of their business—many of them banks with less concern for capital ratios than those in the U.S. The Japanese banks in late 1973 turned themselves from large scale international lenders into even larger scale international borrowers almost overnight.

A large proportion of that debt to the international money markets has still to be repaid and, with no prospect of a transformation of Japan's balance of payments such as was caused by the oil price rises, the Japanese banks are likely to remain a large net supplier of liquidity for some time to come.

Almost more important, the German banks which in 1973 were only dipping their toes into international lending business are now involved on an increasing scale. Even the Swiss banks, which more recently termed medium term a dangerous practice consisting of borrowing short and lending long are now participating in the business.

A feature of coming years will be increased diversification of the currencies in which international loans are made. Plenty of borrowers have already shown they are eager to raise funds in these currencies by making bond issues in them.

Oil prices

The one development which could change this general picture is a sharp shock such as happened with the oil price rises and money market losses in 1973-74. For, while the numbers of institutions involved in the Euromarkets—and the commitment of the old hands in the business—has grown immeasurably since in the last four years, the market mechanisms are more firmly based only to the extent that solutions to the particular problems posed in 1974 have been found. The potential remains for tiered rates and a sharp and speedy contraction in the volume of interbank deposits, in the absence of any meaningful lender of last resort. The money markets remain the fundamental basis of the lending pyramid.

An excess of recycling

MARKET WORRIES about the excessive growth of world liquidity, which seems to be borne out by the experience of bankers at their wits' end to find outlets suitable in term and quality to the funds which keep accruing to them, are singularly difficult to pin down. Trying to define or measure world liquidity quickly degenerates *into a kind of statistical Hunting of the Snark*, with bankers, and the editors of the *International Currency Review*, *desperately* afraid that the thing may, as in the poem, turn out to be a *boojum. A brief review of some* of the available definitions will show up the nature of the problem.

A lay definition of liquidity is the money supply; and there is an index of the world money supply produced by the computer of the International Monetary Fund. It shows, through a geometrically weighted average of all currencies corrected for exchange rate changes, practically nothing at all.

What little it does show is encouraging. Growth accelerated a little to 13½ per cent. in 1976, but appeared to be back under control in 1977 at a little under 12 per cent.—which allows very *little over to finance growth* above the almost fixed world inflation rate of 11.2 per cent., *steady since the beginning of* 1976.

Deposits

However, this measure only *takes into account cash* and demand deposits—our old friend M1: this is largely by the *demand to cover transactions*, and the inflationary boojum is not doubt lurking somewhere else. The broader definitions of money are of little help: they behave on the whole just as well as M1, *if not* better. In the Euromarkets themselves?

This is a large trap for the unwary. First, its *growth rate* is always overstated when the dollar is weak, because it is *measured in dollars*: as a result, all the entries in stronger currencies grow simply by *revaluation. More fundamentally*, as study after study has proved, the Eurodollar market is *not a factory*, but a *pipeline*. Like the interbank market, it mobilises liquidity, but does not *create it*.

What kind of liquidity does it mobilise? Some years ago, in the days of fixed exchange *rates and balance of payments* disciplines, there was a lot of concern at the fact that some central banks were *placing* their funds in the Eurodollar market, so that excess liquidity created by balance of payments deficits was not mopped up, but continued to circulate. The members of the Group of 10 *solemnly agreed to desist*, and while the major industrial countries remained the world's *major* creditors, matters appeared to be brought under control.

Since 1974, of course, the OPEC countries have been the world's major creditors, and *are under no such self-denying* ordinance; they have become the major source of funds for *the growth of the market*. However, this is not a measure of liquidity, but of recycling; and it is only one of the ways in which debt is recycled. That is a problem in its own right, *but before we come to it*, there remains the question of official and bank reserves—what some economists call *high-powered* money, and the IMF calls Mo.

However, there seems to be *some confusion*. Holdings of foreign exchange are not, like gold holdings once were, the *basis for banking credit*; the monetary authorities control the creation of reserve money, and *its world-wide growth has been* at a steady and undisturbed rate. The growth of foreign exchange *reserves* has been more rapid, because of the extent of official interventions in the exchange *market, but this is not itself a* measure of potential inflationary pressure.

World *reserve growth during* 1977 had by October reached $31bn., of which the U.K. alone *accounted for $14bn*. Like the silt in a river delta, this is evidence of the enormous flows which *have occurred*. It is *the* rate of flow rather than any measure of liquidity which *might threaten, to* risk a hideous pun, to wash away the banks.

Now these flows can be analysed in two ways. Most popular and market discussion looks at the *current account of* the balance of payments; but this leaves out of account capital flows which are a large element *in the real world*— no one, for example, is worried by the large financial deficits of companies *developing the North Sea oil*-fields; and it equally overlooks the financial element.

The financial picture *is really* much *easier* to understand if one starts from the source of the money which either finances demand at home or circulates internationally—the creation of domestic credit. This is simply *a matter* of total new lending by banks in their own currencies; and since offshore banks simply transmit this lending, the total growth of domestic credit is the growth of world credit—the growth of bank money, broadly defined.

In any one country, *however*, the totals can diverge very widely: the difference is roughly *the surplus or deficit on official* settlements (the current balance *plus or minus flows of private* capital). Weak currencies are those which are being created *faster than they are used at* home: and for 1977, that meant predominantly the dollar.

For part of the year, this *excessive creation of credit was* simply the result of a battle of ideologies. The U.S. believes *in fairly clean floating. Others* —notably ourselves—believed in exchange rate management. The *U.S. authorities saw no* reason to allow large British purchases of dollars to drain the *U.S.* economy of funds, so there was no restraint on the creation of the corresponding assets by the *U.S. banks*.

Up to this point it could be argued that the creation of excessive credit in *the U.S.* banking system was the result of meeting the demands of *interventionists in other countries*, and that the interventionists were causing the flows. *Now, however*, the Administration is concerned about the international value of the dollar, and has turned interventionist itself; and in financial *terms this* means that the Fed, instead of stopping the creation of excessive dollars, is asking *foreign central banks to supply* funds with which to buy them up—both in New York and other centres. It is in effect asking foreign central banks to take on its own role of controlling the creation of dollars.

This crazy policy in effect perpetuates the flows, and is leading to a situation in which the U.S. banking system is becoming over-extended, while everywhere else bankers see excess liquidity as a problem. Confidence is destroyed in New York while in other centres excess *liquidity* is squeezing margins; and the efforts of the authorities to fund the huge rise in *their dollar claims* is dislocating the bond markets. A failure in the bond market *could even lead to the inflation* everyone fears—especially in the U.K.

All this underlines the wisdom of the International Monetary Fund in imposing a *limit on domestic credit expansion* in debtor countries which come to it for help; it is a great pity *that the creditors* of the U.S. have not felt able to impose similar conditions, but have agreed instead to try to *support the dollar by perpetuating* the conditions which keep it weak. Balance may be restored *simply because the U.S.* banking system itself becomes stretched to the limit. The reported financial problems of *New York City are suggestive* of strain, though the figures suggest that there is still some way *to go*.

It is possible that the flood of dollars will so overstrain monetary control in countries *which* are assisting the recycling that we will all find ourselves in a relatively stable *but much more inflationary* boat (as the arch-recyclers, the OPEC countries, have already *discovered to their cost*). The most effective reassurance will be found not in any measure *of liquidity, but in any news* suggesting that the Fed, under its new management, is coming to believe *that* credit *control* begins at home.

Anthony Harris

Medium-term lending

LAST YEAR is likely to be remembered in the medium-term syndicated market more for the cut-throat competition between banks which enabled *borrowers to improve the terms* of their loans than for the very considerable increase in lending. *This rose to a record* $40bn. from the 1976 figure of $29bn.

Many borrowers, particularly among the developing countries, are to-day being lent money on terms which bankers ruled out of court only a few months ago. *While in a very few cases* a convincing argument can be put forward that a particular *borrower's situation* has improved, the period which often has elapsed between two loans for the same borrower and carrying very different terms has been so short as to make nonsense of such statements.

The *sheer weight of liquidity* in the market and the absence of any demand or perceived demand for inductrial loans in the developed countries is *still* ruthlessly shaving spreads and fees while lengthening maturities and grace periods.

Many observers are wondering whether it is not 1973 all over again. The frenzied *competition which then ruled the* markets bears a marked ressemblance to what is now going on *but the economic backcloth and* the pattern of lending were very different.

In 1973, the world *economy* was growing fast, as was inflation; interest rates rose sharply though they *fell off a little at* the end of the year. To-day, we are still very much in a period of depression but inflation has been falling in the leading industrial countries and interest rates are presently fairly steady.

The size of the Euromarket as a whole and the syndicated sector of it *in particular* has grown: publicly announced medium-term credits have almost doubled from a figure of $21.8bn. in *1973* to a figure of $40.1bn. *last year*. Equally important, the pattern of borrowing has changed; industrial *countries accounted for two-thirds* of syndicated loans in 1973, for under 45 per cent. last *year*. East European borrowers raised four times as much last year as four years before, while *developing* countries raised three times as much.

Borrowers from this last category are the ones which give rise to most anxiety among the banking community. Some have very large debts in absolute terms, others with much smaller debts overall have landed in trouble for reasons which are sometimes of their own making (Zaire, Turkey), while some may suffer from the growing protectionism in the West which, if increased, will simply not allow them to export sufficient goods to pay their way.

Comecon countries used to worry many bankers. This was particularly the case with Poland and Bulgaria, whose external *debt* respectively was more than $10bn. and more than $2.5bn. Comecon's willingness to *reduce its imports in the past* year or so and the general assumption that Russia remains *the lender of last resort have* combined to dispel the disquiet felt by many in 1976.

A few developing countries (LDCs) were well-established names in the market in 1973 (*Mexico* and *Brazil*, the two largest borrowers over the past four years are in this category). But it was in 1975 and 1976 that this category of borrower started raising money in the *market in a big way*. Every other developing country tried its luck and most got something, albeit at very *different* prices.

Industrial countries which had been the main borrowers in *1973* (Italy and Britain) and 1974 (France and Britain) dropped somewhat out of sight to re-emerge in force in 1976 and *last year*.

Many of these shifts since 1974 are *explained* by what happened after the increase in the oil price in 1973-74. Initially the industrial countries were able to pass on much of the added burden to the non-oil *producing developing countries* by increasing the price of the manufactured goods they export. By *1976-77* many of these countries were forced to cut back exports drastically to improve their balance of payments.

At the same time many industrial countries, particularly the smaller European ones, were trying to *climb out of the* recession by spending money through State agencies. It was not surprising to find that the loans *raised by these* countries, despite being earmarked for a particular borrower, amounted *to general loans*. Funding the balance of payments deficit or shoring up the Central Banks' *reserves was the real objective* of countless loans to Spain, Sweden, Denmark, Canada, Fin*land and France*.

Much of the increase in borrowing from this source was *accounted for by* three countries, Canada, Sweden and France, while the increase in U.K. *borrowing between* 1976 and 1977 was largely as a result of the jumbo $1.5bn. operation *concluded 13 months ago*.

This same operation provided an illustration of what was going to happen to *spreads* in the ensuing months: Britain borrowed *at less than 1 per cent.* over the interbank rate. Sweden followed in its footsteps and Iran became the *first developing* country to crash that psychological barrier last spring. By the end of the year prime industrial country risk (France and New Zealand) rates at ⅝ per cent.

At the start of this year Venezuela and Malaysia joined *the club of oil producers able* to command a spread of ¾ per cent. but banks were reluctant to let borrowers *push spreads* down further and resisted French Treasury arguments in *favour of a ½ per cent. spread* for a small Caisse Nationale des Telecommunications loan.

Japanese and German banks were easily the most aggressive, although Chase Manhattan was *not far behind in the race*. The first were encouraged by the Ministry of Finance in Tokyo to *seek customers abroad in* an attempt to recycle the vast balance of payments surplus which *had accumulated in Japan*, while the second, urged on by the authorities and finding less and *less scope for expanding profit*able business at home, took to wider horizons with glee.

Many leading U.S. banks tried *to resist* by refusing to participate in loans, especially when they felt the maturity and drawdown *periods were too long*, but to little avail. They boycotted the $300m. 12-year loan to the Australian State of Victoria and the $500m. seven year loan to New Zealand.

The net result was simple. *When assembling* the *management* group for the $500m. loan for Electricite de France, the lead manager, Credit Lyonnais, wasted no time on the U.S. banks. The European and Japanese banks had demon*strated that they could do with*out the U.S.

The resistance put up by a *number of banks to the tumb*ling of spreads which has characterised the past few months and their *reluctance* to countenance a further erosion of their return on assets has led quite a few of them to lend to borrowers of lesser standing (especially south of the Sahara) in order to secure business with better yields. Other banks have simply looked for more profitable business and appear less prominently on league tables of lead managers and *managers*. They simply feel that the market is coming to resemble, a little too much for comfort, a game of Russian roulette.

Maturities

The *fall* in *spreads* and lengthening of maturities has enabled a number of countries to refinance earlier loans of a few years back raised at greater cost. After Britain and Ireland, a number of South-East Asian borrowers are resorting to this technique.

Two developments will be watched very closely by bankers in the months to come. The first is what measures the Comptroller of the Currency will take and the effect such a tightening of the rules will have on the pattern of lending (many bankers believe it will be considerable). The second is the pressure on the banks to ease some of the provisions in the legal documentation for new loans, in particular the designation of applicable courts of law *in the event of legal proceedings*.

Such problems may determine, just as much as the movement of interest rates and the amount of liquidity held by the banks, the pattern of lending and the conditions attached to loans agreements entered into this year.

Francis Ghiles

EUROMARKETS III

Unstable year for interest rates

FLUCTUATIONS IN the currency markets have been the dominating influence on the comparative levels of interest rates and have had an important effect on activity in the Eurocurrency markets during the past year. The persistent weakness of the dollar during the second half of 1977, and the corresponding strength of the leading European currencies and the Japanese yen, have been reflected in contrary movements in the level of interest rates.

These movements have also contributed to a marked change in the balance of advantage in the choice of currencies for Eurobond financing. During the last quarter of the year in particular, activity in Eurodollar bonds was running at low levels, partly as a result of uncertainty over the currency, while issues in Deutsche marks continued to be made at a high rate and a new market in Euro-sterling bonds began to develop.

OFFICIAL DISCOUNT RATES

	24/1/77	14/12/77	18/1/78	% change on year
U.S.	5.25	6.00	6.50	+ 1.25
Belgium	8.00	7.00	7.50	− 0.50
France	10.50	9.50	9.50	− 1.00
Germany	3.50	3.50	3.00	− 0.50
Italy	15.00	11.50	11.50	− 3.50
Netherlands	5.00	4.50	4.50	− 0.50
Switzerland	2.00	1.50	1.50	− 0.50
Japan	6.50	4.25	4.25	− 2.25
U.K.	13.25	7.00	6.50	− 6.75

Source: National Westminster Bank.

EUROCURRENCIES—THREE-MONTH RATES

	24/1/77	14/12/77	19/1/78	% change on year
Eurodollar	5.19	7.13	7.44	+ 2.25
Euro-Swiss Franc	1.25	2.44	0.97	− 0.28
Euro-French Franc	12.13	14.38	12.38	+ 0.25
Euro-Deutschemark	4.63	3.88	2.88	− 1.75
Euro-Guilder	6.44	6.75	4.50	− 1.94
Euro-Sterling	12.98	7.13	6.84	− 6.14

Source: National Westminster Bank.

The pressure on the dollar has produced sharp rises in the value of all the traditionally strong currencies, the Swiss franc and the yen in particular and the West German D-mark. At the same time, the pound, one of the weak currencies, until nearly the end of 1976, has seen a remarkable transformation over the past year on the strength of renewed international confidence in Britain following negotiation of the IMF loan coupled with the sharp improvement in the balance of payments as North Sea oil has begun to make an impact.

Movements

These movements and the unrest which persisted in the exchange markets through most of the past six months have brought substantial problems for the countries on the receiving end of the speculative flows. Efforts to stem the pressure have included at times heavy official intervention in the exchange markets by the central banks with the stronger currencies; various measures to discourage inflows from abroad (including in Britain some modest easing of restrictions on outflows); and regular efforts by politicians and central bankers to talk the dollar up by emphasising that its decline had gone too far and by underlining the effects it was having on their domestic economies. It has also brought, notably in Britain but also in other countries, a decline in the general level of short-term interest rates—a movement which is in contrast with the increase in the U.S.

The prime reason for the pressure has been the very sharp increase in the U.S. trade deficit to a record level of $26.72bn., four-and-a-half times its level in the previous year. A large contribution to the rise was made by sharply increased oil imports, and the problems of the U.S. Administration in gaining acceptance for its energy policy have contributed to international uncertainty. In contrast, Japan and West Germany have produced increased surpluses, while Britain saw a surplus of £59m. on its current balance of payments, the first since 1972.

The attitude of the U.S. authorities towards the dollar and their apparent indifference for most of last year to the effects its decline was having on other countries have played a key role in the exchange market movements. Initially, the U.S. was inclined to regard the fall in the dollar as a useful contribution to correcting the payments imbalances. It was felt that these had arisen partly because the U.S. economy was growing more rapidly than those of other countries which had not followed the U.S. example in their efforts to sustain world growth.

With the growing pressure on the dollar after June, the dangers of this attitude became increasingly apparent. The market took the view that the Administration was trying to talk the dollar down, and as the decline in the value of the U.S. currency gathered pace later in the year it brought a growing volume of complaints from countries with the stronger currencies, particularly Switzerland and West Germany. The West Germans especially found their export-orientated industries complaining about the effect of the rise in the D-mark on their ability to compete in world markets, and brought growing pressure on the U.S. through a series of urgent public and private warnings of their responsibilities for ensuring greater stability in the exchanges.

The U.S. changed its attitude gradually, and towards the end of the year was beginning to argue that the decline in the dollar had gone too far to reflect the underlying economic realities. It was only in early January, however, that positive steps were taken to arrest the decline through the decision to undertake a more active intervention policy, backed by the weight of the international central bank swap arrangements with the supplementary support of a new agreement with West Germany.

Meanwhile, however, the other leading countries had been forced to take their own action to fend off the inflows of funds from abroad. In West Germany the measures adopted in mid-December included an increase in the compulsory deposits placed with the Bundesbank (central bank) by commercial banks in proportion to their obligations towards foreign customers, and measures to restrict foreign buying of domestic securities. They also included a cut in the already low level of interest rates, with the official discount rate being reduced by ½ per cent. to 3 per cent.

Strains

A particular problem associated with the strength of the D-mark was its effect on the European "snake" joint floating arrangement. The Scandinavian currencies were twice forced to devalue, in April and in August, and on the second occasion Sweden dropped out of the arrangement. The renewed strains later in the year were again reflected in interest rate movements, with Belgium raising its discount rate twice during December by a total of 3 per cent. to 9 per cent., largely in order to protect its currency in relation to the D-mark. Later, as the pressures eased, Belgium was able to bring the rate down again by 1½ per cent.

The impact of the currency movements on interest rates, however, was nowhere more obvious than in Britain. In the early part of the year the British authorities followed a policy of keeping the pound more or less stable in relation to the dollar, at around $1.72, and a regular and at times rapid fall in the level of short-term interest rates saw the Bank of England's Minimum Lending Rate (MLR) down from its peak of 15 per cent. set in the emergency measures of late 1976 to 8 per cent. by mid-May.

The accelerating pressures on the dollar, however, forced a change of approach in late July, with the Bank of England holding sterling steady in relation to the index against a basket of currencies rather than the dollar. Inflows continued, however, and MLR fell again during August to 7 per cent. The final stage was reached in September and October, when the inflows into the U.K. built up to a very high level and pushed rates down again, with MLR reaching 5 per cent.

At the end of October Britain was forced to abandon the policy of holding the rate down and allowed the pound to float with little intervention. This move was followed by a renewed jump in MLR to 7 per cent., reflecting the view that the inflows from abroad had taken it down to an artificially low level, though the rate slipped again to 6½ per cent.

With rates in the U.S. moving upwards as part of the efforts of the authorities there to protect the dollar, the changes in the levels of domestic interest rates in the leading countries have been directly reflected, and in some cases exaggerated, in their Eurocurrency equivalents. In spite of the widening of the gap between Eurodollar and D-mark rates, the unsettled currency scene remained the dominant influence on investors' attitudes up to the end of the year, reflected in a continued trend to move from dollar to DM-denominated bonds.

Michael Blanden

Export credit systems

THE BRITISH decision to make use of the Euromarket for the purposes of funding long-term export credits was made largely of necessity at a time when it was essential to reduce the burden on public spending and borrowing created by the refinancing activities of the Export Credit Guarantee Department.

Although the conversion of these Eurocurrency funds into longer term fixed rate lending to support major projects has not been easy, and the change-over initially met with some opposition, the scheme has undoubtedly created a new dimension in the provision of export credits.

Buyers of British goods or services had become accustomed to the advantages of paying in sterling during the long period of its declining value, but in the short term at least, they also have benefited from the weakness of the dollar.

However, these fluctuations are relatively unimportant when seen over periods of up to 12 years and it is now interesting to speculate whether the Euromarket will be able to extend its loan capability from the current maximum period of about seven years to the full period required for major construction and industrial projects.

At present, foreign currency loans operate on a basis of variable interest rates related to a three to 12-month rollover period, being reviewed at the end of each rollover period and fixed according to the supply and demand of the currency concerned.

Conversion into longer term money is achieved by ECGD acting as co-lender with syndicates of commercial banks, usually the clearers but on some occasions with approved U.K.-based foreign banks. Under an agreement commercial banks undertake fixed interest rate lending commitments for the maximum period possible under current market conditions.

ECGD, as lender of last resort, undertakes to cover over the whole period of the lending once the banks' commitments expire if the latter are not prepared to extend their commitment or if replacement lenders cannot be found, although this is thought to be unlikely.

So far only the Eurocurrency market has been used for this purpose because it tends to be more flexible than the bond market, although the latter has not been ruled out and may be used at a later date when the present system has been fully tested.

Under a separate agreement ECGD also guarantees the syndicates against borrower default and undertakes to take over the lending if members of a syndicate are unable to continue funding the loan facility. The department also makes up the fixed rate of interest receivable under the financial agreement to a level based on the commercial rollover rates prevailing in the market but which includes a margin agreed by ECGD at the outset in each case. If the fixed rate exceeds the market rate plus margin, the excess interest is paid to ECGD.

The volume of business generated for the Euromarket by the new scheme is now fairly substantial in relative terms and has reached a level of about $650m. since May last year and is expected to hit the $1bn. mark before very long.

From the U.K. point of view, the saving on public expenditure is thought to have been considerable, although this is difficult to quantify, but with the fall in the previously high domestic interest rates, Eurodollars are now marginally more expensive.

Although ECGD had aimed to make the facility as easy to operate as the sterling scheme, there have been unavoidable complications in dealing with the fluctuation of currencies. For example, where an exporter has dollar receivables under a supply contract, he has the option of either selling the dollars immediately at the spot

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Controls on U.S. banks . . .

"IN FACT, the foreign claims of U.S. banks have grown at rates exceeding 15-20 per cent. per year *during the past few* years. As a result, considerable public attention has been drawn to this *issue* and questions have been raised about the prudence of the international lending policies of the banks. We believe these concerns are greatly exaggerated and will continue to prove to be unfounded. Losses on foreign loans have been small. Loss experience has been better on foreign loans than on domestic loans. Moreover, with the *recent improvements* in the international payments pattern and successful adjustment effort in a number of deficit countries, U.S. bank lending abroad has been growing at a much slower pace. In the first nine months of 1977 the increase was at an annual rate of only ten per cent. compared with 24 per cent. in 1976."

Since the speaker quoted above was Mr. C. Fred Bergsten, the Assistant Secretary of the Treasury for International Affairs, and since the date on which he offered his remarks *was as recent as* January 23 in testimony before a Congressional committee, an obvious *conclusion is that the foreign* operations of American banks were not feeling—and are not *about to be sujected to*—the federal regulatory pinch. It might almost seem as if the *shock waves generated by the* collapses in 1974 of Franklin National and the bank I. D. *Herstatt had become no more* than ripples of concern in waters made much calmer by the receding fear of an international debt repayment crisis.

Such a conclusion would be wrong. Although it is undoubtedly true that the U.S. authorities no longer consider probable default on the part of most major foreign creditors, the regulatory agencies here have with little fanfare but some *effect been focusing their attention* more firmly on the external position of American banks.

Two public disclosures in the course of the last month have illustrated this. One was the publication by the three *principal regulatory agencies*—the Federal Reserve, the Comptroller of the Currency and the *Federal Deposit Insurance* Corporation—of a country-by-country survey of U.S. bank lending *overseas, the first in what is* to become a semi-annual exercise, designed to heighten general, *and particularly* Congressional, awareness of the issue. The survey itself produced few surprises and, if anything, tended to bolster the point that the debt repayment problem was manageable at present.

The second and probably more important action was the exceptional decision by the Comptroller's office to make public the criteria which *it* has privately been applying for some years in scrutinising U.S. foreign bank loans. Specifically this concentrated *on the obligation* of the banks in their foreign operations to abide by the 110-year-old "10 per cent. *rule*" which *stipulates* that no bank may lend more than 10 per cent. of its capital to a "single" *borrower*.

The main difficulty here, freely admitted by the effective new Comptroller, *Mr. John* Heimann, was to determine what constitutes an individual borrower at a *time when* U.S. banks had been increasingly making foreign loans not only *to foreign Governments but also* to foreign agencies and institutions that are wholly or partly *owned* by the same foreign Governments.

The criteria require that *potential foreign borrowers* pass both a "means" and a "purpose" test in order to qualify as "*single*" entities entitled to borrow as much as 10 per cent. of a U.S. bank's capital. The first stipulates that a borrower *must have* the resources or income of its own to repay any loan; the second that loan proceeds must be uesd in the conduct of the *borrower's normal* business and not diverted to other purposes, such as Government balance - *of - payments* needs.

Some flexibility, as Mr. *Heimann pointed out*, is being used in applying these standards, which on the face of it *could severely circumscribe* U.S. bank foreign lending. Mexico, for example, had made strong representations to the U.S. Treasury last autumn that it had failed to understand the full functions exercised by Mexican State agencies and was in effect cutting of the supply of American funds to them by interpreting too narrowly the lending criteria, which state that if a borrower cannot pass both tests, then its loans will have to be aggregated with other loans outstanding to the Government in question and other related *institutions* all coming under the 10 per cent. ceiling.

The publication of the rules, Mr. Heimann maintained, was necessary to eliminate confusion both among potential borrowers and among American banks about the policies being employed by the regulatory agencies. But it was also, he made clear, designed to serve another purpose — that of ensuring *that* U.S. *banks* kept full data on their foreign borrowings and transmitted such information in greater detail than hitherto to the regulatory authorities. This would not only enable the regulators to determine *more accurately if* proper prudent banking practice was being observed in the granting of loans but would also furnish much more complete consolidated information to those agencies whose responsibility is to anticipate trouble spots.

Agencies

The increased muscle being exercised by the regulatory authorities is still barely being flexed and there is plenty of evidence of internal bureaucratic disharmony among the three principal agencies — which does not make the task of the banks in complying with different rules any easier. However, under Mr. Heimann, who was previously New York State Bank Comptroller *before* being *brought to* Washington by President Carter, the Comptroller of the Currency's office is clearly seeking to assert itself more. The fact that Franklin National was a New York bank *may have more* than a little to do with Mr. Heimann's interest and concern.

It must also be borne in mind that nothing that the regulators have *instituted to date amounts* to substantive controls over U.S. bank lending overseas, but *rather extended surveillance*. U.S. regulation over the Eurodollar market, for example, *remains essentially non-existent*.

It is a state of affairs which is persistently criticised by some *influential* voices in Washington, such as the Senate Foreign Relations subcommittee on foreign economic policy. But even its most recent report on international debt, published last August, provided more of a discussion of present perils than a blueprint of corrective action. It was obliged to agree, for example, that closer liaison between the banks and the International Monetary Fund, for example, was no complete panacea and that unless and until the industrialised world, led by the U.S., came to grips with the OPEC surpluses then imbalances would persist.

Jurek Martin
U.S. Editor

. . . and their lending activities

MOST OF the major U.S. money *centre banks have been growing* increasingly dependent on foreign lending for their profits *over the past two years*. Although the burden of helping the world adjust to the huge *surpluses being earned* by OPEC countries was thrust upon these banks, it is a burden which they *have* been *happy to bear* and without which their balance sheets and income statements *woud be looking threadbare*.

In 1976, for example, the ten largest U.S. banks earned over *half their profits from foreign* lending and there is no doubt that in 1977 the figure will have *increased—in some cases* (Citibank is an instance) dramatically.

This dependence on foreign earnings is not something all the banks would have wished upon themselves, useful though it has been. In part at least it is a reflection of the stagnation of demand for loans from corporate customers who have been re-financing themselves in the bond markets, from retained earnings and using the commercial paper market for an increasing proportion of their short-*term* needs.

The imbalance between foreign and domestic loan demand has become an increasing problem for the banks. This is not just because of the hue *and cry over* the quality of foreign debt, particularly debt to less developed countries *which do not export oil*, which has had a depressing effect on bank share prices at a time when many banks *need to* increase their capital.

Of equal significance is the evidence *emerging last year* that the more than ample supply of funds to foreign borrowers from U.S. *and European banks* had turned the market into a borrowers' market.

Thus international lending rates to better quality country borrowers started last year with a spread of one percentage *point over London interbank* offered rate (LIBOR), and in spite of resistance by some *banks had narrowed to ⅝ of a* percentage point. Although, as bankers are quick to point out, front-end fees have raised the lending banks' yields back to the 1 per cent. level, a fall in fees has exacerbated the decline in the profitability of foreign lending. Advances are much less profitable than a few years ago. In addition, competition has also stretched out the length of loans from seven to ten years in some cases.

Anxious

As the U.S. banks move into 1978, therefore, they are growing *more anxious about* the outlook for domestic lending. If the commercial and industrial loan *demand* which regional banks in Texas and California experienced in 1977 spreads to *New York banks, then it will* bring with it a variety of desirable changes from the banks' point of view. At a time when liquid European banks are still anxious to lend overseas it will enable the U.S. banks to be more selective and at least stiffen resistance to further narrowing of banks' yields on much of this foreign business.

A higher proportion of domestic profit will not do bank share prices any harm at all and may help to bring forward the day when more of the money centre banks can ask shareholders for new capital.

It will also ease what anxieties they may have that the Comptroller of the Currency may adopt too rigorous an interpretation of his foreign lending regu*lations and provide the banks* with arguments to support their view that a flexible approach is desirable.

When it comes to trying to guess just how likely the U.S. money centre banks are to *see* a surge in domestic lending demand there is no consensus. Dr. Henry Kaufman, the respected economist and credit market analyst who is a partner in New York investment *bankers Salomon Brothers*, has forecast record credit demands in the U.S. this year in which the banks will share. Mr. Willard Butcher, president and chief operating officer of Chase Manhattan Bank, is less sanguine—as are top executives at another leading New York bank, Manufacturers Hanover.

Mr. George Putnam, a Citibank senior vice-president and head *of Citicorp International* group, says the bank expects domestic loan demand to start *improving at money centre* banks certainly towards the end of the year. When this happens, *he suggests, it will* first affect the spreads on syndicated loans, moving them in the lenders' *favour—and subsequently* banks might find the length of loans shortening again.

With the big money centre banks also having to pare their prime rates to domestic corporate borrowers at present, they clearly have a lot at stake now on the outlook for their domestic lending.

As to the other side of the equation there seems to be general agreement with a recent *view expressed in Morgan* Guaranty Trust's *World Financial Markets* that international *credit market activity this year* will be no less, and may be higher than last year's level.

Venezuela will not be alone among the OPEC nations drawing on the international credit markets this year, bankers suggest. Others are expected to be Iran and Algeria. Morgan Guaranty has also forecast that there may be an acceleration of demands from non-OPEC LDCs too and from East European countries. Maturing loans will continue to be re-financed at a high level.

Stewart Fleming

Export CONTINUED FROM PREVIOUS PAGE

exchange rate then prevailing or selling them forward.

As the exporter's bank will hopefully have explained to him, selling at spot rates means that he cannot know in advance how much sterling a given dollar drawing will produce and this can naturally have implications over a long period.

However, by using the forward market this can be *avoided*. and when *sterling* is standing at a discount a forward contract will provide more *sterling than conversion of the* same dollar sums at date of contract. This margin may be used *either to reduce prices. increase* profits or as a hedge aaginst inflation.

In circumstances when an exporter is unsure of when he will receive his dollar payments he *may still use the forward* market by means of an "option contract." Under this arrangement *he will* be enabled to deliver dollars between two future dates. during which time he will receive a fixed forward *rate* of exchange.

Alternatively he may decide that it will be more beneficial to roll forward the forward exchange contract if there is uncertainty as to when the currency payment will be received or if a previously established forward exchange contract will not be able to be honoured.

Despite the complexities, the use *of the forward* market is more of an insurance than speculation, but expert advice should always be sought. ECGD also provides, as an integral part of the facility, additional cover against losses which an exporter may suffer if the supply contract is terminated for reasons other than the supplier's own default and forward exchange contracts have to be unwound.

An indemnity against the extra costs which might be incurred in the process of this unwinding will be provided under the terms of the premium agreement *entered into* by ECGD and the exporter. In addition, to enable exporters with long lead times to take advantage of the forward market, arrangements have *been made between the banks* and the Bank of England to ensure that banks will be able *to enter into forward contracts* where the present forward market is insufficiently deep.

*An additional problem associ*ated with the use of the forward market arises where an exporter is *required* to *tender* for a project and to maintain his tender price for a specified *minimum period while currency* fluctuations may work against his interests. This has been met by the introduction of a new ECGD facility, tender to contract cover.

Because an exporter bidding in foreign currency cannot enter into forward exchange arrangements for periods beyond the date of contract signature until such time as the contract is awarded to him, his tender price can only be based on an estimate of the *forward* rates of exchange likely to apply, if and when he signs the contract.

In the event of *movements in* interest rates or if sterling appreciates against the currency *of the contract, this estimate* may prove wrong, exposing the exporter. The ECGD facility *overcomes this risk by guaran*teeing for exporters the sterling out-turn for their contract *which was envisaged at the date* of tender and which was intended to be produced by the currency tender price.

While Britain's *involvement* in the Euromarket has created complexities and problems of *this kind, it is clear that it has* also been of great benefit. The successful operation of the *scheme owes much to the* strength of the British export credit system and while other *European countries may wish* to evolve a similar system using the Euromarket, it appears at *present that few have* export credit systems which are as ideally suited.

Lorne Barling

Arab countries flex their muscles . . .

IT IS just over four years since the outbreak of the 1973 Middle East war and the quadrupling in oil prices. To-day, the ramifications of these events are still being felt. Japan and most of the major Western economies are still not sure whether they are coming out of the subsequent recession or going into one, and the Middle East oil-producing governments are still experimenting cautiously with ways of investing their new-found wealth.

The bulk of their surplus revenues continues to be invested conservatively. Only a small amount has gone into the speculative gold market, for example, and most of the money is still invested short-term in bank deposits or treasury bills in major financial centres such as New York and London. Despite the appearance of a myriad of local financial institutions the Arab world still relies heavily on Western financial advice. But there are signs that the Arab countries are at last beginning to flex their financial muscles.

Most recently this has been seen in their attitude to the U.S. dollar—the main medium for the payment of oil revenues. Only a matter of days after President Carter had met Saudi Arabia's King Khaled, the U.S. authorities announced plans to prop up the dollar. It appears that the Saudis protested strongly about the lack of official U.S. intervention and the Americans seem to have got the message.

At lower levels too, the influence of Arab oil money is making itself felt. Wealthy financiers such as Adnan Khashoggi and Ghaith Pharaon are to be found jetting around the world starting up ambitious projects in the Far East, Latin America and Europe. Mr. Pharaon, for instance, shot into the limelight following the recent announcement that his company intended taking a controlling stake in the National Bank of Georgia by buying the shares of Bert Lance, the former U.S. Budget director and close confidant of President Carter.

Yet another sign of the growing financial confidence of the Arab nations is the increasing sophistication of the local capital and money markets. These are nowhere near as visible as the recently constructed expensive new airports and grandiose industrialisation projects but despite in some cases severe growing pains they are no less impressive. Last year was a bad one for the Kuwait stock exchange but it is now well established, as is Bahrain's offshore banking market. A common Gulf currency is still some way off but this has not stopped the development of a Gulf-wide money and foreign exchange market where dealing spreads compare well with those found in Europe.

Saudi Arabia remains far and away the wealthiest Middle Eastern country and Kuwait the most financially sophisticated but they no longer have a monopoly. Apart from Bahrain, other Arab States are demonstrating growing financial expertise. Jordan has just opened a stock market and Syria is toying with the idea of establishing an offshore banking market.

A leading Arab banker recently summed up his country's financial aspirations as follows: "In as much as we desire to process oil locally and build around the oil a petrochemical industry, instead of exporting it all in crude form, we likewise aspire to build a financial sector around exporting capital that does more than merely join underwriting groups and climb international tombstones."

Undeveloped

Before the quadrupling of the oil price the financial structure of the Middle East was virtually undeveloped. Beirut was the only place that could claim to be anything like a financial centre and that was soon negated by the outbreak of civil war. However, the past four years have witnessed a rapid development of the local financial infrastructure and a centre such as Bahrain can now claim to offer almost as comprehensive a range of financial services as any regional financial centre. Alan Moore of the BMA believes that Bahrain is now accepted at least as well as Singapore or Nassau as a counter party for money trading operations.

Naturally the local money and foreign exchange markets have developed the most rapidly. The initial intention of establishing Bahrain as an offshore banking centre was to enable local banks up and down the Gulf to have a place where they could deposit their surplus funds and deal in local and international currencies without having to rely on European centres. To this end it has been very successful.

Last September the Bahrain Monetary Agency carried out a spot check for a week on trading volume and found that it was running at an estimated monthly rate of \$8bn., of which \$1bn. was in local currencies—principally Saudi Riyals and Kuwaiti dinars. In addition, the forward market, mainly in Gulf currencies, has grown from \$0.5bn. to \$2bn. over the past year. According to Alan Moore, at least "no other centre in the Gulf can provide a market in international foreign exchange with as much depth as Bahrain." Dealing spreads have narrowed dramatically as the market has developed. In 1976, for example the spread on one year Saudi riyal deposits would have been 1½ per cent.; currently it is a ¼ per cent.

However, developments have not been confined to the short-term money markets. Kuwaiti certificates of deposits (CDs) made their debut last year. The first issue of KD9m. was made by the Gulf Bank and was followed by another issue by the Kuwait Real Estate Bank—both of them were well received and enabled the banks concerned to improve their maturity structure while offering local investors a new and attractive negotiable financial idstrument.

Another new development has been the emergence of syndicated local currency deals which enable local borrowers to raise larger loans. Late last year the Saudi Chemical Processing Corporation raised what is believed to be the first syndicated loan denominated in Saudi riyals. The 100m. riyal loan was used to finance a new fertiliser plant. The lead manager was the National Commercial Bank of Jeddah. The facility was divided into two tranches—40m. riyals for six years and 60m. riyals for seven years—and carried a spread of 2¼ per cent. above Jeddah interbank rate.

The emergence of a fully fledged Arab capital market is taking longer, but there are now encouraging signs that local institutions are starting to mobilise local funds. A number of "investment companies" are operating internationally. The Kuwaiti investment companies are already well known and groups such as the Sharjah group and the Abu Dhabi Investment Company are becoming more familiar outside the Middle East. Groups of wealthy Arab individuals are tending to start up investment vehicles. Just before Christmas, for example, a group who described themselves as a "Middle Eastern private monetary pool," advertised for banking and legal advisers to manage their \$100m. investment portfolio.

Tapped

Another growing area is the Middle Eastern private placement market which is being tapped by a growing number of U.S. corporations and public utilities. This business tends to be handled rather secretly by top U.S. investment banks such as Morgan Stanley and Salomon Bros. Most of the deals are not publicised but it is known that last year General Motors Acceptance raised \$200m. and two U.S. telephone companies and a Dallas utility also tapped the market. While the domestic U.S. private placement market raises funds for 15 to 25 years, Middle Eastern investors prefer to restrict themselves to no more than ten years.

In addition, Kuwait has an increasingly important local capital market which is used by a number of foreign borrowers. The Kuwaiti dinar bond market is now over seven years old and so far around 30 issues have been made and over \$1bn. raised if the World Bank private placements are included. There have been a number of obstacles to the market's developments of which the most important have been the relatively high borrowing costs and the lack of secondary market activity. However, the market's liquidity has been improved by the appearance of the Arab Company for Trading Securities (ACTS). The group, which was set up by Kuwait International Investment Co. (65 per cent.) and Industrial Bank of Kuwait (35 per cent.), claims to have done over KD100m. of trade in Kuwaiti dinar bonds in its first six months of operation, and the increase in secondary market activity is likely to encourage further KD issues.

William Hall

. . . and step up borrowing

THE EUROCURRENCY market, which in recent years has relied so extensively on the deposits of the Middle East oil-exporting nations, emerged in 1977 as an increasingly important safety-valve for many of the oil States' own credit demands.

The "problems of success" that intensified in the economies of the oil nations last year have been well chaptered. Soaring inflation rates, unwieldy and expensive development plans and dwindling oil-related payments surpluses among many of the oil exporters were eventually reflected in several ways in the Euromarkets.

Question-marks appeared on another front — the implications in the longer term, for instance, of dwindling supplies of oil money reaching the markets. Morgan Guaranty Trust Company, in the most bearish appraisal, calculates that the oil-exporters' current account balance could be as low as \$16bn. by 1980-81, down from \$32.3bn. in 1976, suggesting that the supply side of the Euromarkets may undergo some fundamental changes in the next couple of years.

Enlarge

Saudi Arabia and Kuwait will continue to be major surplus nations beyond the end of the decade. In a little noticed move last autumn, the Saudis took a significant step to enlarge the number of banks where they were prepared to deposit their funds.

They decided to deal with 65 banks worldwide, greatly improving the flow and absorption of Saudi money into the international banking system, both "onshore" and "offshore." Before that, Riyadh, traditionally conservative in its relationships with foreign banks, had restricted its deposits to a group of only 17 banks, mainly U.S. and European.

Structural problems of the Euromarkets apart, most attention was focused on the producers' expanded borrowing from the international credit markets, which nearly doubled in 1977.

As in previous years, the jumbo-sized loans from countries such as Venezuela and Nigeria (their borrowing during 1977 included individual medium-term credits of \$1.2bn. and \$1bn. respectively), received most of the publicity. States such as these, along with Indonesia and Algeria, have already slipped back into significant current account deficits or will shortly see their current surpluses disappear.

Their borrowing was designed to finance ambitious development programmes, established in the first euphoria over the oil wealth, as well as their payments deficits.

In another category, Iran, the United Arab Emirates (UAE) and Qatar, still enjoying payments surpluses, were also prominent borrowers. In these cases, development is extensive and their own internal credit systems often inadequate to the task of meeting the consequent financing requirements of public and private sector enterprises.

But another and significant category of borrowing from the OPEC camp emerged during the course of the year. This was the Arab Government agency or the private company affected by the relative recession (or more accurately the slower rate of growth in many over-extended States), which followed action by several Arab Governments to try and halt runaway inflation during 1976-77.

For many of the smaller States the headlong pace of economic expansion which started in the early 1970s after the increase in oil prices was simply too fast to be sustained. With inflation rates creeping up to over 25-30 per cent., even in Iran and Saudi Arabia, something had to give.

The cost of this expansion, and the subsequent braking measures applied by Governments, had some severe and well-documented side-effects. The banking crisis in the UAE early in 1977, involving the closure of two banks, was one such event.

But the more subtle impact of this tightening of domestic credit market conditions in certain Gulf States once again—and in the classical manner—brought the Euromarkets into their own. In the words of one banker, "We found the door closed to lending for many of our customers, particularly in areas such as property; so we immediately went 'offshore' for funds to meet their requirements."

Construction

That meant using the Euromarkets, with 1977 seeing an immediate increase in lending to corporate borrowers, including those engaged in construction to meet the Gulf's new hotel boom.

In fact, by autumn 1977 doubts were beginning to be voiced over the amount of debt coming into the markets related to hotel construction, particularly in Bahrain. The primary concern of bankers is that most of the new hotels in the State are being financed by bank debt. Besides steps by certain governments to curb speculation in property and real estate, the domestic banking networks of some OPEC States found their limits for property lending tightly stretched by early 1977.

Even among some of the "low-absorbing" OPEC States in the Middle East, which will have no need for external finance for development in the foreseeable future, the same type of story was being encountered at a corporate level.

Several long-term Eurocurrency loans were sought by Kuwaiti companies last year. The relative recession in Kuwait left cars unsold in the showrooms, and resulted in a build-up of large stocks of unwanted consumer durables. The Kuwaiti stock market, after its phenomenal boom in 1976, suffered almost unrelieved depression in 1977, with stories of frighteningly large losses for some corporations which had been dabbling in the market.

Whether such reports were accurate or not, other factors were also at play, and opened up the markets for a growing number of Arab borrowers. In many cases, domestic sources of long-term capital—when compared with the maturities offered in Eurodollars—were simply not available in Saudi riyals, UAE dirhams and Iranian riyals.

In one of the several "firsts" for the Euromarkets during 1977, a large and respected Saudi business group brought along its affiliate, the Transport and Trading Co. Inc., for a \$40m. five-year Eurodollar loan.

This loan, to meet working capital needs and finance part of the group's capital investment programme, marked the first known Eurocurrency loan for a Saudi private sector enterprise.

Nevertheless, it was in the lower Gulf Emirates that the most startling expansion of lending occurred. The UAE increased its borrowing, defined by international bond issues and medium-term credits, to \$1.07bn. in 1977 from a meagre \$55m. in 1976.

The only country in the area to outstrip this figure was Iran. But its borrowings — \$1.27bn. —were lower than the \$1.5bn. recorded in 1976, according to an analysis by Morgan Guaranty's *World Financial Markets*.

Total medium-term borrowing by OPEC States in the international credit markets last year was \$8.03bn. against 1976's \$4.13bn. But Venezuela (\$2.09m.) and Nigeria (\$1bn.) accounted for a sizeable chunk of this.

These figures do not tell the full story, however. On a different definition (which covers all international bank lending including short-term), the new lending to oil-exporting countries by the banks reporting data to the Bank for International Settlements climbed to nearly \$10bn. in 1976, the last full year for which statistics are available. While the largest borrowers within this group were, again, Venezuela, Iran and Indonesia, the figure includes an increase of about \$2bn. in claims on Bahrain, as a result of that country's expanding role as an offshore banking centre.

John Evans

Japan recycles its trade surplus

JAPAN HAS been actively promoting its capital exports mainly through Japanese and foreign bond markets to recycle *part of its growing trade surplus.*

A change in the Japanese Government's policy, coupled with favourable market conditions, helped foreign issuers to float 15 yen-denominated bonds totalling Y296bn. in Tokyo during 1977, a sharp increase from six bonds totalling Y65bn. *in 1976. Ten more* bonds worth Y200bn. are expected to be issued during the *first* quarter of this year. Japan is thus fast becoming a major international bond issue centre. To make sure that this will mean rapid capital exports, the Japanese Government is now asking foreign issuers to convert the yen proceeds of *their* issues into U.S. dollar or other foreign currencies as soon as possible.

Removal of tight controls also made it possible for Japanese investors to make net purchases of U.S. treasury bills and other foreign bonds worth Y140bn. during the first eleven months of 1977, compared with an al*most insignificant Y390m. in the* full previous year. Japanese investors were trying to diversify their investments, often taking advantage of interest differen*tials.* despite a sharp appreciation of the yen, the Securities Dealers Association said.

Deferred

Supply of trade credits by Japanese exporters, based on *deferred payment facilities pro*vided by the Export-Import Bank of Japan, also increased to $1.4bn. during the 11-month period from $571m. in the whole of 1976, owing mainly to an increase in the export sales of industrial plant facilities by *Japanese companies.*

Other forms of capital exports from Japan did not fare very well. Private direct investments overseas by Japanese enter*prises fell* to $1.4bn. in the 11 months from $2bn. in 1976. The Finance Ministry believes *this was because many Japanese* companies suffering from sluggish business conditions at home, were not in a position to consider large investments over*seas. Japanese investments in* foreign stocks in the 11 months showed only a small net pur*chase of Y3.9bn. compared with* a net sale of Y7.9bn. in 1976.

Until mid-1977, when it became clear that Japan was going to have a large current-*account surplus in fiscal 1977,* contrary to a previous estimate that it would end up with a deficit, the Finance Ministry had been allowing foreign issuers to *float one yen bond per month* or at longer intervals, the bulk of the issue being about Y10bn. each. Flotation of a Y20bn. bond by the Republic of Ireland and a Y30bn. bond by the World Bank (which was also allowed to issue a Y20bn. "*Euro-yen" bond at the same* time) in August showed that the Finance Ministry had decided to permit foreign issuers to raise larger amounts at *shorter intervals.*

In the closing four months of 1977 ten yen-denominated bonds were issued in the Japanese capital market. The issuers *comprised the Inter-American* Development Bank (Y15bn.), the Canadian Provincial Government of New Brunswick (Y12bn.), the European Investment *Bank* (Y15bn.—second issue of year), Spain (Y15bn.), Mexico (Y20bn.), New Zealand (*Y27bn.*), Brazil (Y20bn.), the World Bank (Y50bn.—second issue of year), Venezuela (Y20bn.), and Singapore (Y15bn).

A *sharp decline in Japanese* interest rates during 1977 also helped foreign issuers to increase their yen bond flotation. The yield to maturity for the AA grade industrial bonds were cut four times from 8.894 per cent. at the beginning *of 1977 to 6.884 per cent. in* October, which was substantially lower than most overseas *markets except West Germany* and Switzerland, Another factor which attracted foreign issuers to the Japanese *market was* that it could accommodate them owing to a decline in demand for industrial bond flotation by Japanese issuers because of a low level of *capital* outlays for plant and equipment, despite a sharp increase in the flotation of *national* bonds for deficit-financing.

In the rigidly-controlled *Japanese interest rate structure,* Japanese issuers were bound by agreed yields for new issues that are determined through consultation among market operators and officials. Foreign issuers, however, can ask for rates "on a spot basis," meaning the *secondary market level,* which is freer and usually ahead of the issue market. The Tokyo bond market also has only loose grading of issuers according to the size of their capital and profit position, in sharp contrast with strict *grading in the U.S. and other* markets. Unofficial standards set by the Finance Ministry in 1972 *for foreign issuers said they* should have issued at least three bonds in the past five years or five issues in the past 20 years in the world capital market, all of *which should be publicly-placed* issues.

These were eased in December, 1977, to two issues in five years or five issues in 20 years, *including only one publicly*-placed issue in either case. The change has qualified some developing countries, including Malaysia and the Philippines, to *raise yen bonds.*

The government of Denmark and the Canadian Provincial *Government of Manitoba issued* a Y20bn. bond and a Y15bn. bond, respectively in January, 1978, while Korean Development Bank has raised *Y10bn. Other issues expected in* the first quarter of 1978 are Australia (Y40bn.), Finland (Y25bn.), City of Oslo (Y15bn.), Malaysia (Y15bn.), the French *National Railways (Y25bn.), the* Asian Development Bank (Y20bn.), and the Philippines (Y15bn.), securities sources said. In April the Governments of *Norway,* Sweden and the Argentine plan to float yen bonds.

The Finance Ministry said it *plans to extend a special tax* exemption measure called "maruyu" from April this year to yen bonds issued by private foreign enterprises or guaranteed by *foreign local govern*ments. In the past the "maruyu," which exempts individual holders of up to three million yen per person from income tax deducted at source, was applied only to bonds issued by international institutions, *foreign governments, foreign* local governments, and enterprises in which foreign governments had a stake. Japanese securities companies believe the change will open the way *for* big U.S. and West European enterprises to raise yen bonds in Japan. The "Big Four" Japanese securities companies are sending emissaries overseas *to prepare for this.*

Approval

Since last summer the Finance Ministry *has been per*mitting Japanese underwriters to sell up to 25 per cent. of each *yen bond issue to non-residents* on a case-by-case basis. As for "Euro-yen" bonds, of which one issue was made in 1977 by the World Bank and the *European Development* Bank each, securities sources said the Finance Ministry is not very keen on approving new plans, because sales of such bonds will *reduce the amount of foreign* issues in Tokyo. Under the present rules, issuers of such bonds must get the *approval* of the Japanese Government, while syndicates for their issues must be managed by a Japanese securities company.

Securities sources said expansion of the Japanese market for foreign bond issues will continue, unless the Japanese Government's business-stimulating programme suddenly increases industrial demand for equipment investment funds or causes Japan's balance of payments to deteriorate. It will also be in line with the *Bank of Japan's policy to liberalise* the Japanese bond market as much as practicable.

Securities sources say the Tokyo bond market now has good "infrastructure," including a liberal government policy which leaves most transactions for negotiation *between issuers* and underwriters, and sophisticated knowledge obtained by Japanese securities companies through participation *in overseas bond issues in the* past several years. However, they see some problems which *must be handled in a delicate* way if the market is to seek further internationalisation. Leading securities companies which manage syndicates for yen bonds by *foreign issuers* usually analyse their financial position and bond issue record *scrupulously.* But *easing* of standards for foreign issuers and lack of strict grading are liable to let some foreign issuers gain advantages which they *cannot obtain elsewhere.* There has been criticism that foreign issuers, once admitted in the Tokyo market, can behave as they please.

Another question about yen bond issues by foreign issuers is intense competition among *Japanese securities companies* to get orders to manage issues, the sources said. This sometimes becomes complicated by another competition between *foreign issuers* to maintain their respective prestige in the market. The terms for a bond issued by the European Investment Bank in October, 1977, *had to be changed from an* originally-planned Y20bn. 12-year bond to a Y15bn. 10-year bond, with the issue price raised to 99.75 per cent. from an originally planned 99.50 per cent., to make its yield to maturity 6.842 per cent. slightly lower than the 6.972 per cent. for the Inter-American Development Bank issue in the previous month.

There were a few other *similar cases of changes being* made for competitive purposes. Finally, principal underwriters made an agreement in November that yields to yen bonds by foreign issuers should not be below the over-the-counter yield of the best-graded 12-year electric power *company* bonds and their reflected differentials among issuers.

Saburo Matsukawa

Swiss franc still an attraction

SWITZERLAND'S CAPITAL market remained a great attraction for foreign borrowers last year despite the continued strengthening of the Swiss franc. *Although no full figures are yet* available, an indication of the 1977 volume is given by National Bank information that a dollar's total equal to some Sw.Frs. *11.5bn. was put on the market* last year. These originated from conversion out of Swiss francs of the proceeds of "concessionary capital export transactions," *a group of borrowings including* public bond offerings and medium-term private placements by foreign interests and bank loans to foreigners. Going by past experience, this could mean that total Swiss franc borrowings by the outside world were Sw.Frs. 14-15bn.

In fact this sum will be noticeably down on the record Sw.Frs. 19.1bn. booked in 1976, when there was a sharp rise in all three categories of foreign borrowings. But it is still a very considerable amount—and very welcome to the monetary authority since the compulsory exchange into dollars of the Swiss franc proceeds goes far to finance the National Bank's interventions on the foreign exchange market. These interven*tions, necessary to prevent an* even higher exchange rate, cost SwFrs. 15.5bn. in 1977, or a net expenditure of only Sw.Frs. 4bn. in the light of conversions.

It is already possible to calculate foreigners' Swiss-franc bond offerings on the public capital market. *These raised* Sw.Frs. 3.68bn. of new money last year, or about 7 per cent. more than the Sw.Frs. *3.42bn. recorded for* 1976. Altogether 54 issues were listed. Coupons began the year at about 5-5½ per cent. for top names and up to 6-6½ per cent. for less attractive floats, finishing at about 4½-5 per cent. for the whole range of borrowers. The total excludes the "domestic" issues of international or foreign companies *with a Swiss domicile (like Dow* Banking; Societe Internationale Pirelli or Eurofima) but includes two "foreign" loans by Swiss Aluminium Australia, the Sydney subsidiary of the Zurich-based Alusuisse group.

While the high subscription *level and the low and falling* coupon rates led to a further overall increase of foreign borrowing activity on the Swiss *bond market, there was at the* same time a marked rise in repayments by foreigners.

For the first eleven months of 1977 redemptions totalled Sw.Frs.1.86bn. as against only Sw.Frs.803.4m. for the January-November period of the previous year. Against the background of the rock-hard Swiss franc and the development of *interest rates, there is a* veritable swarm of premature redemptions coming up early this year on the part of foreign companies and Swiss-owned subsi*diaries of multi-nationals, among* the former Distillers with a Sw.Frs.50m. issue due in 1982 and a Sw.Frs.60m. Tube Investments float maturing in 1986.

Unaltered

This makes the unaltered issue volume of SwFrs.580m. for January and February, 1978, look much less imposing. Nevertheless, new foreign borrowers *are finding interest conditions* increasingly congenial, with the going rate for first class names now down to 4 per cent. The cheap money available does something at least to offset fears of running up a debt in an upward-floating currency.

In the private placements sector volumes have fallen off considerably from the huge Sw.Frs.10.5bn. *raised in these* medium-term Swiss franc notes in peak year 1976. Credit Suisse estimates the amount for the first three-quarters of 1977 at only some Sw.Frs.5bn. The trouble last year with this side of the market did not lie in lack of demand but rather in lack of supply of quality paper. Demand grew in 1977 in fact, particularly with the insufficient availability of domestic bonds in the latter part of the year, though *investors* were not prepared to buy just anything.

To-day there is a remarkable *spread between first-class, pri*vate placements (where they exist) and exotics. Rates of some 4½ per cent. are reckoned a standard for good five to seven-year maturities and the market says a highly desirable three-year issue by a quality borrower could go at under 4 per cent. At the other end of the scale, 7 per cent. and 7½ per cent. are being offered on *less attractive notes.*

New private placements in Switzerland are no longer allowed to be repaid before maturity—in the same way as *a special levy has been* introduced for premature redemptions of public-offer bond issues. *But there have been very large*-scale reimbursements on existing notes; so much so that these payments were said by National Bank President Fritz Leutwiler *late last year* to be a contributory factor in the surge of the Swiss franc.

Bank loans to *foreigners* will probably have risen in 1977 over the *Sw.Fr.5.2bn.* booked for the previous year. According to a recent survey by the *Union Bank of Switzerland, in*terest in Swiss-franc loans on the part of public authorities abroad has been "relatively great," especially in the case of *countries whose domestic capi*tal markets dispose only a limited financing capacity. In the case of private enterprise borrowers, however, a high *level of liquidity and a pretty* low investment volume is seen as having reduced the need for loans of this kind. This is quite apart from the fact that by no *means* all *potential* borrowers consider the low Swiss interest rates reason enough to risk a *currency loss. The latest figure* for Swiss-franc bank loans to foreigners is Sw.Frs.3.53bn. for January-September, 1977.

For the year ahead Switzerland seems set fair to provide further large funds for the rest of the world. Certainly, with *annual inflation* currently running at only 1.1 per cent. and an administration keen on *keeping interest rates low,* Swiss franc borrowings look cheap. While the Swiss franc could well *strengthen somewhat* against numerous other currencies, it is doubtful whether it will rise quite *so fast* as in 1977—with a jump in the trade-weighted exchange rate of no less than 17.6 per cent. It remains to be seen how large the net addition of foreign borrowings will be after the rash of mature and pre*mature redemptions.*

John Wicks

Zurich Correspondent

EUROMARKETS VII

EUROBOND ISSUES 1977

($m.)

Country of borrower or guarantor	No. of issues	U.S.$ fixed rate	U.S.$ floating rate	Canadian $	D-marks	Guilders	Kuwaiti Dinars	Total	% of total	% of total 1976
Algeria	3	25.00	30.00		43.00			98.00	0.62	0.48
Argentina	1				43.00			43.00	0.27	0.00
Australia	11	455.00			107.50			573.78	3.64	6.57
Austria	14	80.00	120.00		253.50	63.25		516.75	3.28	1.87
Bolivia	1	15.00						15.00	0.10	0.00
Brazil	9	100.00	40.00		336.00			476.00	3.02	1.53
Canada	39	935.00		470.00	395.75			1,834.10	11.65	13.31
Denmark	7	115.00	30.00		41.50			186.50	1.18	2.11
Finland	5	55.00	60.00					148.00	0.94	1.21
France	20	245.00	525.00		188.50			958.50	6.09	12.59
West Germany	3	300.00						300.00	1.91	0.53
Hong Kong	3							127.81	0.81	0.00
Hungary	1				43.00			43.00	0.27	0.16
Iceland	2	20.00			20.75			40.75	0.26	0.22
Iran	2		30.00		49.80			79.80	0.51	0.19
Irish Republic	1		30.00					30.00	0.19	0.00
Israel	3	10.00	50.00					60.00	0.38	0.19
Italy	3	80.00	75.00					155.00	0.98	0.56
Japan	40	750.00	200.00		200.11			1,150.11	7.31	8.34
Korea	2	25.00			43.00			68.00	0.43	0.32
Luxembourg	1				41.50			41.50	0.26	0.48
Malaysia	1				41.50			41.50	0.26	0.00
Mexico	13	150.00	100.00		337.25	30.28	24.50	642.03	4.08	1.59
Netherlands	9	125.00				168.43		293.43	1.86	1.41
New Zealand	3	25.00			83.00	29.95		137.95	0.88	1.82
Norway	19	375.00			606.30	80.77		1,062.07	6.75	6.74
Panama	1	25.00						25.00	0.16	0.09
Papua New Guinea	1	25.00						25.00	0.16	0.00
Philippines	3				43.00		17.61	81.69	0.52	0.00
Poland	2		35.00				14.09	49.09	0.31	0.32
Portugal	1		50.00					50.00	0.32	0.00
Singapore	2	15.00			41.50			56.50	0.36	0.93
Saudi Arabia	1							9.92	0.06	0.00
Spain	4				166.00		17.39	183.39	1.17	1.26
Sweden	16	580.00			230.75			810.75	5.15	3.56
Switzerland	2	195.00						195.00	1.24	2.34
U.K.	32	1,040.00	260.00	20.00	222.90			1,677.90	10.66	4.20
U.S.	18	955.00		126.00				1,081.00	6.87	7.34
Venezuela	1	100.00						100.00	0.64	0.00
Yugoslavia	4		80.00				15.00	95.00	0.60	0.34
Multinationals	2	500.00			64.50			564.50	3.59	16.45
Supranationals	28	1,180.00		25.00	189.75	29.95	17.39	1,614.29	10.25	
Total	334	8,500.00	1,715.00	641.00	3,833.36	402.63	105.97	15,741.60	100.00	

Source: Inter-Bond Services.

Eurobond activity at record level

THE FULL detail of the Eurobond market activity last year can be seen from the tables. In general although issuing volume in the international bond market declined slightly last year from 1976 to $32bn., Eurobond issuing activity rose by more than $3bn. to a record figure of $17.5bn. This rise helped to offset the decline in the volume of new foreign bond issues in New York and Switzerland, a decline largely explained by the lower level of Canadian borrowing on the U.S. market.

The high volume in the Eurobond market was achieved despite great uncertainty on the U.S. dollar currency front, an uncertainty which turned into marked weakness as the year wore on and steadily rising dollar interest rates.

While new issue managers knew that investor demand was considerable, guessing which would be the most popular currency or maturity at a given moment was not always easy. The narrowing of the yield curve was weathered better than many feared, arguably because of the market's greater depth; that is, the greater number of non-financial investors compared to the 1973-74 period, the last major market crisis.

The market's activity is also explained by the weight of liquidity in circulation. It encouraged banks to buy bonds which yield more than the money used to purchase them costs. The amount of this warehousing remains a difficult phenomenon to judge and quantify.

The fear had long been expressed that the rise in short term interest rates would trigger a big wave of selling. In the event, the combination of the flattening yield curve, rising short-term rates and the collapse of the dollar did cause a slump in prices, though no one was quite sure of the volume of actual selling that this represented. In the last quarter, the dollar's share of new issues fell back to less than 50 per cent. from 65-70 per cent. in the first nine months of the year.

This was more of a reflection of the fall-off in dollar issues than an increase in those in other currencies. However, the currency of the last few months has undoubtedly been the D-mark (partially because of measures taken by the German central bank to stop speculative flows into other forms of D-mark denominated paper).

The volume of issuing activity has increased in recent months and this has allowed a greater variety of borrowers to have access to the market, particularly developing countries. The fall in the DM interest rates has meant that, despite such borrowers having to offer a premium over what better quality borrowers pay, the interest costs they incur are well worth the exercise. A dozen developing countries, particularly Latin American ones, have widened their sources of finance.

EUROBOND LEAD MANAGERS 1977

		Issues	U.S.$	DM	Other	Totals	%
1	Deutsche Bank	37	1,845.00	1,221.05	—	3,066.05	19.48
2	Credit Suisse-White Weld	25	1,915.00	—	45.00	1,960.00	12.45
3	S. G. Warburg	29	1,275.00	—	163.20	1,438.20	9.14
4	Union Bank of Switzerland (Securities)	14	1,375.00	—	25.00	1,400.00	8.89
5	Westdeutsche Landesbank	28	205.00	1,029.11	—	1,234.11	7.84
6	Dresdner Bank	21	185.00	1,014.30	—	1,199.30	7.62
7	Banque de Paris et des Pays-Bas	9	820.00	—	45.00	865.00	5.49
8	Morgan Stanley International	19	695.00	—	137.64	832.64	5.29
9	Commerzbank	11	150.00	444.40	—	594.40	3.78
10	Orion Bank	13	415.00	—	105.00	520.00	3.30
11	Hambros Bank	8	425.00	—	—	425.00	2.70
12	Credit Lyonnais	7	235.00	83.00	—	318.00	2.02
13	Credit Commercial de France	7	255.00	—	45.00	300.00	1.91
14	European Banking Company	7	235.00	—	30.00	265.00	1.68
15	First Boston (Europe)	5	255.00	—	—	255.00	1.62
16	Amsterdam-Rotterdam Bank	9	85.00	—	167.58	252.58	1.60
17	Daiwa Europe	10	140.00	—	91.20	231.20	1.47
18	Swiss Bank Corporation (Luxembourg)	5	220.00	—	—	220.00	1.40
19	BHF Bank	5	—	208.25	—	208.25	1.32
20	Kidder Peabody International	6	160.00	—	41.08	201.08	1.28
21	Goldman Sachs International	5	150.00	—	40.00	190.00	1.21
22	Morgan Grenfell	6	170.00	—	18.00	188.00	1.19
23	Banque Nationale de Paris	4	185.00	—	—	185.00	1.18
24	Nomura (Europe)	8	180.00	—	—	180.00	1.14
25	Hill Samuel	5	140.00	—	36.00	176.00	1.12

Source: Inter-bond Services.

ISSUES DURING 1977

By currency and maturity

Currency Group	Under 5 yrs	5 year	6-7 yrs	8-10 yrs	11-15 yrs	Over 15 yr
Pound Sterling	—	—	45.0	54.0	117.0	—
Australian Dollars	—	11.3	—	—	—	—
United States Dollar	325.0	1,550.0	1,650.0	2,020.0	2,595.0	360.0
Bahrein Dinars	—	—	21.1	—	—	—
Canadian Dollar	—	245.0	251.0	80.0	40.0	25.0
Deutschemark	—	296.0	1,139.7	1,421.4	976.3	—
Netherlands Guilder	—	227.3	115.4	60.0	—	—
Hong Kong Dollar	—	33.4	21.2	106.6	—	—
Kuwaiti Dinar	—	—	32.6	73.4	—	—
Saudi Riyals	—	9.9	—	—	—	—
Floating Rate (Dollar)	—	480.0	1,010.0	75.0	—	150.0
European Unit of Account	—	—	—	33.0	—	—
Japanese Yen	—	—	91.2	—	—	—
Total	325.0	2,852.8	4,377.1	3,923.4	3,728.3	535.0

Source: Inter-bond Services.

The sterling bond market reopened last November and got off to a very quick start: one month and six issues later it was an open question whether it would simply just turn round and die. A little time and the persistent weakness of the dollar worked wonders however and the new issues which came along at the end of last month proved that the sector was here to stay.

Another new and perhaps more promising sector of the market has been the yen. The Japanese authorities will however keep a tight rein and the fact the currency is not easily traded in Europe is bound, some dealers argue, to limit growth in this sector.

By contrast, one sector which withered under the twin effect of a weak currency and a large balance of payments deficit was the Canadian dollar.

With the rise in dollar interest rates, floating rate notes have come into their own, accounting last year for about one third of all bank offerings. FRNs, as they are known, are favoured by many non-U.S. or German banks as they seek to raise long term money. French banks are foremost among those issuing them and it is not hard to understand why. Apart from a weak currency and the difficulty they might have in refinancing themselves in dollars, they have to contend with a Central bank which has not always warned them of potentially damaging moves it was about to make.

Corporate treasurers are said by many banks to be keen investors in FRNs. As profits have increased and corporate investment remained low, they have had to find a safe outlet for their cash surpluses. Putting money into FRNs has proved a popular choice: coupons are adjusted every six months and thus remain in line with deposit market rates. At the time when the coupon is readjusted, the investor probably finds the bond trading at par and is thus able to liquidate his holdings without any loss of capital.

Another noteworthy change last year was the lengthening of maturities. When new issuing activity started up again in earnest in 1975, five years was the favoured maturity and the maximum most investors would consider. Uncertainty about future inflation trends led to a much wider gap between short term interbank rates and bond yields than before. Investors wanted a large premium for taking their money out of short term deposits. According to a Kredietbank analysis, in 1975, over 70 per cent. of new issues had maturities of less than eight years, a percentage which fell to less than 50 per cent. by the end of the third quarter of last year.

The possibility of a re-emergence of the reverse yield gap this year or the likely continuing weakness of the dollar are not happy omens for 1978.

On the other hand, provided they are prepared to borrow in a wide variety of currencies or to pay floating rates of interest, borrowers are unlikely to be starved of long term funds to the degree which has happened on occasion in the past.

Francis Ghiles

Home and foreign interaction

One of the more striking features of the international capital market is the growing interaction between external bond markets and their domestic counterparts. This "increasing intercommunication," as the Bank for International Settlements described it in its 1977 annual report, has never been easy to gauge, and if anything, the currency upheavals of the past year have resulted in an even greater tangle of complexities. But the links between these two separate and quite distinct debt markets, though blurred, have not been weakened.

This is perhaps most noticeable in Europe. Rates of interest on foreign and domestic bonds in the major Continental areas like Switzerland and Germany are sticking remarkably close to each other, with a yield differential on D-mark bonds at present of little more than a quarter point. Five years ago this extended to almost two full points, whereas over the same sort of timespan the gap between U.S. rates on internal and external bonds was barely one point at its widest.

This is partly explained by the growing sophistication and familiarity of investors with European markets and currencies. At the same time, Europe has more readily adapted itself to the international investor—at all levels. International bonds have become more diverse — the latest fledgling addition to the European ranks is the recent rash of issues in Euro-sterling — while domestic markets have become more open to cross-frontier investment.

Widened

As a result the bond manager's field of play has clearly widened substantially in recent years. A feature of the recent upsurge in the domestic capital market in Germany has been the way "international" money has washed over from the foreign bond market. In fact, the rush for DM assets has been a part of the domestic bond market in Frankfurt for a number of years, helping to reduce yields on outstanding bonds with a life of four years or more from 10.9 per cent. in October 1974 to less than 6 per cent. at present.

At the moment internal bond markets in Germany find themselves at the centre of a mini-renaissance. This is partly the result of the traditional upsurge in institutional liquidity at the end of the year. But it is also clear that the measures taken by the Bundesbank in the early part of December to curb the inflow of foreign funds into the country have had a beneficial side effect on local long term bond markets. The growing strength in foreign exchange markets of the D-mark forced the authorities to place an embargo on overseas investment in short term paper, a measure that was coupled with a full half point cut in the Bundesbank's discount and Lombard rates.

Thus the yield curve in Frankfurt was effectively steepened. Call money, which for most of last year hovered around 4 per cent. compared to little more than 6 per cent. for ten-year bonds, has eased significantly. This is helping new issue activity in the current year — some DM400bn. was raised on the domestic bond market in Germany in 1977 compared to around DM50bn. in the foreign bond market—where the new issue queue is known to be substantial.

The German Government's 1978 funding programme is heavy with a public sector net financing deficit publicly forecast to rise by around a quarter to DM50bn. The Federal Railways (Bundesbahn) set the ball rolling last month with a DM850m. offering with a maturity of 12 years on a 6 per cent. coupon. Following a dip at the beginning of January to coupons of 5¾ per cent. in the foreign bond market it had looked conceivable that the domestic arena was about to be confronted with a similar move. In the event there was considerable relief among market makers that this did not happen.

Instead the issuing authorities opted for a slightly longer maturity (of 12 years) and in this respect the terms for the forthcoming issue of between DM800m. and DM1bn. by the Federal Republic are eagerly awaited. The Bundesbank needs to keep its issue queue as orderly as possible, while at the same time creating enough interest and demand in the market to achieve its massive funding programme.

Curiously, the yield differential between domestic and foreign bonds in Switzerland is the reverse of the pattern in Germany—despite the obvious uniformity of the investment attractions of both countries (their currencies chalked up gains of 22 per cent. and 12 per cent. respectively last year). In Germany foreign bonds yield slightly less than domestic bonds, but in Switzerland foreign offerings return something like a half point more. During 1977 average long-term yields on the internal market in Switzerland eased from around 4.2 per cent. to 3.5 per cent., with external yields declining more rapidly from about 5.5 per cent. to just over 4 per cent. at present.

Differing

The tighter controls to be found in Zurich are perhaps one reason for this differing yield basis on external bonds between the two major currency areas in Europe. The Swiss authorities are perhaps more conservative when faced with the additional "political" risks invariably involved when foreign organisations tap monetary markets. But size may be a factor too. With just Sw.Frs.3.7bn. raised in 1977 the Swiss foreign bond market is barely 1/12th of the size of the new issue market for foreign bonds in Germany.

According to Credit Suisse, the local bond market in Switzerland put up Sw.Frs.6.7bn. of new money last year or roughly a fifth less than the Sw.Frs. 8.4bn. peak achieved in 1976. The downturn is due to the absence of new government funding, with official financing dropping strikingly from the Sw.Frs.2.7bn. of 1976 to barely Sw.Frs.500m. last year.

Both countries have been affected by the excess liquidity built up as a result of sluggish demand internal for loans. Much the same picture emerges from the Netherlands but here the investment patterns are complicated by the occasional attacks of weakness in the guilder. This was especially noticeable in the final quarter of 1977 when foreign exchange pressures forced the Dutch central bank to lift interest rates sharply.

As a result yields on the Dutch internal bond market closed 1977 in much the same style that they began with a marginal decline of perhaps a quarter point over the year to around 8 per cent. for long-term paper. However, the situation has changed strikingly in recent weeks; bond dealers are hard pressed to recall a time when the interest rate background in Holland had altered so radically in so little time.

Halved to a point at the start of the year, the premium on overdrafts charged by Dutch banks has been removed altogether as a result of the build-up in liquid funds at the short end of the market; and at the time of writing a cut in the central bank discount rate, probably to 4 per cent. from 4½ per cent., was widely anticipated. Demand for the latest State loan has been substantial despite the reduction in coupon compared to the Government issue in December. The latest state tender offer carries a coupon of 7½ per cent. whereas December's issue, which pulled in some Fls.350m., carried a coupon of 8¼ per cent.

The interest rate background in neighbouring Belgium is influenced by events in Holland. And a 1977 fourth quarter hiatus in foreign exchange markets similar to that which affected the Dutch bond market occurred in Belgium. Towards the end of last year the Belgium discount rate was raised a full three points to 9 per cent. The sequence of events this year has been almost equally dramatic, with two subsequent cuts in January dropping the central bank rate to 7½ per cent.

On government issues of between 7 and 13 years' life, the average yield in Belgium last year dipped from around 7.6 per cent. to 6¾ per cent.—and thanks to some fairly heavy government borrowing the new issue market was active. Gross new money raised in Brussels last year was some 35 per cent. higher at B.Frs.276.4bn. for the domestic bond market.

In the U.K. the feature last year of the interaction of internal and external bond markets was the sudden emergence towards the close of 1977 of a market in Euro-sterling bonds. Debt of this type actually predates last year for the U.S. company, Amoco raised money in this way in 1972: of the nine recent issues there have been offerings by a number of U.K. corporate borrowers.

The emergence of an international market in London springs directly from internal factors, with the dramatic turn round in the balance of payments at the top of the list. Domestic markets in London had a buoyant year in 1977. The Financial Times Government securities index ended December several points below its peak (79.85) of late September but the capital gains built up since January when the index stood at 60.45 are still massive.

At the moment gilt markets in London are uncertain of their overall direction. The recent stream of economic indicators has been generally unfavourable while the prospect of a breach in the Government's wages guidelines—which are crucial to the continued decline in the rate of inflation—is beginning to loom very large in the shape of threatened industrial action by the power workers.

Along with European currencies like the Swiss franc and the D-mark, the Japanese yen increased its international significance last year. Helped along by Japan's huge balance of payments surplus there has been a major boom in foreign yen-denominated bond issues in Tokyo. In fact the official Japanese attitude to overseas lending has changed dramatically over the past year. Banks, which were subject to very tight foreign exchange controls on their overseas activities little more than a year ago, are now actively encouraged to play a more positive role.

Inflow

Tokyo's domestic bond markets are dominated by sluggish loan demand internally, and the need to lower interest rates in the face of a massive inflow of foreign funds seeking a strong currency base (the yen appreciated by some 22 per cent. last year). Yields on ten year money dipped last year from 9 per cent. on average to 6¼ per cent.

Bond market new issue activity increased by three-fifths to the equivalent of some £250bn. last year partly because of a massive flow of new bonds from a government needing to finance a budget deficit. As a result the proportion of government bonds traded in the market moved up sharply from 4½ per cent. in 1976 to almost 11 per cent. It is widely expected that the projected budget deficit for 1978 will further increase this ratio—to possibly more than a fifth.

In foreign yen bond markets new issues rose by a startling 75 per cent. to accelerate sharply the five-year trend of rising overseas investment in foreign yen bonds.

Jeffrey Brown

Challenge to U.S. bond market

ACCORDING TO most expectations the U.S. credit markets will face still larger demands for money in 1978 than last year, when the total debt issued topped a record $323bn. With U.S. domestic inflation seemingly lodged in the 6 to 7 per cent. annual increase pattern, short-term interest rates are expected to rise still higher, so that quality yield spreads in the long-term markets may well begin to widen this year.

It is still too early to say what impact this trend will have on the so-called Yankee bond market but a possible straw in the wind may have appeared last December when the French National railways switched a seven-year $40m. bond issue to the Eurodollar market because it decided that a difference of up to 50 basis points between yields rendered the New York market unnecessarily expensive.

Nevertheless, the impressive liquidity of the U.S. market and domestic investors' appetite for the kind of long-term issues favoured by some sovereign governments mean that activity in the market will again be brisk this year. Traditionally, Yankee bonds are issued not only by governments and their agencies but also by supranational institutions such as the World Bank, the European Investment Bank and the European Coal and Steel Community. A third—and in some years most important—category is the Canadian government and its agencies.

Foreign interest in issuing Yankee bonds has increased greatly since the lifting of the U.S. interest equalisation tax in January 1974. In 1973 new issues of Yankee bonds totalled $960m. but this leaped to $3.3bn. in 1974 to $8.7bn. in 1975 and to $10.5bn. in 1976. Last year, however, the total fell to around $6.6bn., partly reflecting the gradual increase in the cost of borrowing through the year and some waning confidence about the strength of the dollar.

But the most potent factor, according to Morgan Guaranty Trust, was much reduced borrowing activity by Canadian entities, particularly provincial governments. In 1975 the Canadians raised $3.3bn. of that year's total new issues, $5.7bn. of the 1976 total, but only between $2.5bn. and $3bn. last year. To some extent this was a result of a reduction in the borrowing requirement of Canadian provincial governments and their agencies, which managed to finance a much larger portion of their total borrowing needs in the American market.

Placed

In 1976 Canadian provincial and municipal governments and their agencies placed about 45 per cent. of their bond issues domestically, but last year the proportion rose to nearly 60 per cent. Moreover, the rise to power of the Parti Quebecois severely weakened the market for Quebec issues, so that the province, together with Quebec Hydro, which raised $1.4bn. in the U.S. in 1976, placed only $200m. last year. Among other borrowers Japan, Sweden and Norway led the field with a total placement of around $1.8bn., compared with $1.69bn. the year before, while issues by developing countries were almost totally dominated by Venezuela, Mexico and Brazil.

Salomon Brothers in its annual publication "Prospects for the Credit Markets" expects a greater Canadian dependence on U.S. markets this year, but less activity by some other countries and BAL agencies. The "very large future needs" of Canadian provincial authorities will encourage their return to the U.S. market, but, says Salomon, some other foreign nations will be deterred by the higher yield levels which will be prevailing in the U.S.

A further inhibiting factor could be a weakening of the market for short-term five to seven-year Yankee issues because foreign investors, who account for the bulk of the purchase of the short-term bonds, may be frightened away by possible currency exchange risks. Salomon says currency exchange fears will be less of a factor for international agencies which have a fairly large domestic market in the U.S. and have a greater capacity to offset exchange risks.

Nevertheless, international agency borrowing, which totalled $2.2bn. in 1975, $2.4bn. in 1976 and $2.1bn. last year, may be lower this year because of the lower yields obtaining in other strong currency markets, notably the yen, the Deutschemark, and the Swiss franc. At the end of 1977 yields on high-grade seven to ten-year issues were just over 4 per cent. in Switzerland, less than 7 per cent. in Germany and Japan, but a little over 8 per cent. in the U.S.

Since the U.S. bond market started to decline last autumn, shorter term Yankee bonds of five to seven years maturity have held up better in the secondary market than corresponding U.S. Treasury issues and therefore spreads have narrowed. Longer term spreads have remained unchanged, however, so there are about 100 basis points between the European Coal and Steel Community 9¼ per cent. bonds of 1997 and the U.S. Treasury 7⅞ per cent. of 2007. This helps to explain why U.S. domestic investors still are attracted to the longer term Yankee issues where the triple A ratings are impeccable and the yields advantageous.

John Wyles

The CD success story

ONE OF the biggest Euromarket success stories of 1977 was the certificate of deposit (CD) markets. The volume of U.S. dollar CDs outstanding in the London market grew very fast—from \$16½bn. to \$23bn.—while the idea, until then limited to the London and U.S. markets, was taken up in Kuwait and in Singapore. A further innovation was the floating rate certificate of deposit (FRCD).

Certificates of deposit (CDs) were seen for the first time in 1961 in New York. In 1966 the first London dollar CDs were issued by First National City Bank out of White Weld (institutions which have since been transmuted into Citibank and Credit Suisse White Weld respectively).

Whatever combination of institutional structure gave the market its initial impetus, it has now reached substantial size, though in proportion to London Euromarket business as a whole the CD market has grown only from 8 per cent. to 10 per cent. in four years. The \$23bn. volume of CDs outstanding compares with some \$70bn. in the United States. A clearing house, run by First National Bank of Chicago, was established in 1976 and now serves 80 institutions (up from 20 a year ago). A plethora of dealers provide secondary market back-up.

The basic principle of the CD is simple: on the one hand, banks want fixed term deposits; on the other, those who place deposits with banks do not want to tie themselves down irrevocably for any significant period. By means of the bank issuing a certificate which can be sold to someone else, both sides get the best of both worlds. For the depositor the cost of retaining an option to get his deposit back is a slightly lower interest rate than he would have got if he had committed himself irrevocably by making a term deposit. From the bank's point of view, in addition to increasing his capacity to attract term deposits, CDs therefore cut the average rates payable.

Limit

CDs are mostly fixed rate, and are issued for up to five year maturities—the limit allowed by the Bank of England (although larger maturities can be obtained by forward contracts).

As far as the London market is concerned, a crucial development was the removal early in 1974 of the U.S. controls on exports of capital. This opened up a whole new group of potential investors in London dollar certificates of deposit—investors in the United States.

London CDs habitually pay slightly higher rates than New York CDs issued by the same banks because of the possibility that the Bank of England — or a British Government — might in extremis freeze foreign currency deposits in London, thus preventing holders of CDs issued by the London branches of U.S. banks from getting repaid. This question of sovereignty, as it is generally known, affects rates in the ordinary deposit markets as well as CDs and the size of the differential has varied according to the general psychological condition of international investors at any given moment of time.

By comparison with other London markets which are in general excellently documented, one of the features of the London dollar CD market is the lack of statistical information on which to base any kind of analysis of what is happening. It is after all only a small adjunct to the \$235bn. Eurocurrency money markets in London though it is more than double the size of the sterling CD market (outstanding issues £4.6bn. or \$9bn. equivalent) for which much more information is available.

The two pieces of hard information which are available are the total volume of issues outstanding — reported to the Bank by the issuing banks — and the value of the CDs which is held by U.K. banks. This was about \$3.6bn. at the last reporting date in mid-December or some 15 per cent. of all issues outstanding.

The Bank publishes a breakdown of which kinds of banks hold most CDs and which kinds of banks issue most.

The other area where statistics are published is turnover. However, they are probably deceptive.

At a first glance, secondary market turnover in CDs looks very large. The problem is that the Bank of England's turnover figures in some respects give a falsely large impression of the volume, while in other respects they understate it.

On the one hand, they include everything which could conceivably come under the heading of trading activity; on the other, the information is collected only from a proportion of the dealers active in the London market while the (probably) increasing volume of dealings which never pass through London at all are not included in the figures.

Thus the turnover figures consist of purchases plus sales plus new issues which pass through the hands of the dealers who report information to the Bank of England. The turnover figure is thus even more comprehensive than the one reported by the two Eurobond clearing houses (Euroclear and Cedel) for Eurobond secondary market dealings. (Both Euroclear and Cedel include new issues in the turnover figures they report but they include only one side of each transaction, either purchases or sales. In the case of the CD turnover figures, a transaction between two reporting institutions would be counted twice, both as a purchase by one and a sale by the other.)

On the other side of the coin, the list of institutions which report trading figures to the Bank has not yet been increased fully to take into account the large numbers of institutions which have started trading CDs in the past couple of years.

In addition transactions between, say, two companies in the United States—deals which do not pass through one of the London houses either as a purchase or a sale—are not included.

It seems that moves are under way to make the list of reporting institutions more or less comprehensive again. It is more difficult to see how estimates can be gained of non-U.K. transactions. Although everyone agrees that an increasingly large volume of dealing is being carried on between buyers and sellers outside the U.K., it is difficult to get even a feel of how important such dealings are in the market as a whole.

One indication perhaps is that First Chicago reckons that of order a fifth of the transactions which pass through its clearing system might be between institutions outside the U.K. On the basis of the current turnover levels of about 120 transactions each day, this would mean about 6,000 transactions per annum.

In these circumstances all one can safely assume is that turnover is likely to be counted in billions of dollars per month.

Major

As far as investors are concerned, apart from the identifiable 15 per cent. of outstanding issues held by London-based banks (a figure which compares with over 60 per cent. of sterling CDs outstanding) the general belief in the market is that the three major groups of holders are U.S. companies, and the Middle East and the Swiss. It is generally thought in the market that U.S. corporate treasurers have greatly increased their holdings—one dealer said that he thought U.S. companies accounted for most of the growth in the market since 1975.

However, it is understood that the proportions held by different groups have not changed very much since 1975.

At times such as the present when international investors are shy of committing themselves to long-term dollar Eurobond investments, it is probably fair to assume that they put money into CDs on some scale.

The overall maturity structure of the CD market suggests that banks derive a considerable proportion of their long-term deposits from the CD issues.

A breakdown of the maturities of CDs outstanding has not been published by the Bank of England since its last analysis of the market in 1973 (in an article published in the *Quarterly Bulletin* of December 1973). However it is understood that the maturity structure has not changed all that much since then.

Although nearly half of the issues outstanding at the time of the 1973 analysis were due to mature between one and six months later, 23 per cent. had maturities of over a year or more. Applying this proportion to 1977 figures would suggest that London banks issue certificates for about a third of their medium term deposits.

The secondary market in London dollar certificates of deposit has greatly changed over the years and in particular as a result of the invasion by U.S. dealers.

When the U.S. controls on capital exports were lifted in 1974, few U.S. brokers were operating in the market. The secondary market had been mainly provided by a few international investment banks like the White Weld, the discount houses and the London money brokers (as in their other business, the latter do not buy or sell CDs for their own account—they only act on behalf of clients: this contrasts with other traders who hold CDs on their own books).

With the removal of the U.S. controls on capital exports major U.S. stock and money market brokers found themselves at a disadvantage vis-a-vis their domestic U.S. corporate clients if they could not offer them London CDs. Many have since started up by themselves; others have linked up with a discount house.

The cut in trading commissions and the increase in the size in which deals could be made (as well as in overall trading activity) is attributed to the U.S. influence. The dealer's "turn" can now be comparable to that in New York. The difference between the buying and the selling price is up to ¼ per cent. per annum, but can be as low as 5 basis points, while an issuing bank would expect to pay 1/50 per cent. p.a. to the house placing an issue.

The amounts in which individual transactions can be made vary considerably according to maturity and the size of the issuing bank. For CDs issued by a big U.S. bank and due for repayment in the favoured three-six-month range, deals of \$1m.-\$5m. are the norm while \$10m. is not unsual. Dealers say that transactions of \$100m. have been seen.

The introduction of floating rate CDs (FRCDs) in March last year arose initially from the ban by the Japanese authorities on issues of floating rate notes (FRNs) by Japanese commercial banks. However, FRCDs have since then been issued by French banks too and by one Swiss bank. The total amount outstanding now has been estimated by David Potter, of Credit Suisse White Weld (see *The Banker*, January issue), probably conservatively, at \$750m.

Maturities range between one and three years and interest is usually payable at an-eighth or quarter of a point above interbank rates. The key differences between FRCDs and floating rate notes for an issuing bank are that they generally do not guarantee a minimum interest rate (which is likely to be more of an advantage when interest rates are falling than at present, when they are expected to rise) and that the costs of issuing are much lower than for an FRN. From the investor's point of view, one seldom noted advantage can be that a better quality of paper is obtained since FRCDs rank with deposits as having first call on a bank's resources while FRNs are sometimes subordinated.

M.C.

New sources of information

A DECADE ago lending to sovereign states was still the exception rather than the rule in international banking. Now the assessment of country risk and the treatment of problems in sovereign lending have become an essential tool of the trade.

Part of the problem in the past has been lack of information about the size and maturity of individual country's debts. In the past year great strides have been made in this area at least as far as the less developed countries are concerned. Among the various initiatives which have been taken, two in particular stand out, one by the World Bank to extend the coverage of its data and to make it generally available much faster than had previously been the case, and the other by the Bank for International Settlements (or by the central banks of the major industrialised countries under the aegis of the BIS).

The World Bank collects data on the debt of all the less developed countries and has traditionally been the main repository of information on this subject. However, there were some inadequacies in the nature of the data published and the publication of data on any country was held up until the slowest had reported—usually nearly two years out of date.

Now, the World Bank publishes data on individual countries separately, as and when it comes in, and this has meant the delay between the date to which the data refers and the date of publication has been cut down to well under a year in the case of many countries.

Certain improvements have also been made in the presentation of the data, making it much more useful. Thus, for example, information which previously was published on the basis of the aggregate of disbursed with undisbursed debt has now been made available on the basis of disbursed debt only.

However, the major improvement in the statistics is still in the main to come. The World Bank has now started to gather information on the foreign currency debt of private sector institutions in individual LDCs —hitherto its data covered only the external debt of the public sector.

Breakdown

The main initiative associated with the Bank for International Settlements last year was the breakdown of the maturities of each country's debt to the major international commercial banks.

This information was collected from the commercial banks themselves via the central banks in each major industrialised country. Although a complete coverage of these banks' lending to each country was not achieved — in particular the lending by branches of some major banks outside their own countries was not included in the reported statistics — the coverage was wide enough to give substantial new insights into the drain on individual countries' foreign currency resources which repaying the commercial banks and paying interest to them would pose.

The data was collected as of end-1976. Last December, the central banks decided to repeat the exercise as of end-1977 and every six months thereafter. The figures have not yet been published for end 1977 but, in contrast to the last occasion when they were released, only to banks which had contributed figures, it is intended in future that the information should be generally published.

What is particularly thrown up in this data but is not available elsewhere is any immediate problem arising from heavy debt repayment scheduled in the near future.

The central banks have also given the go-ahead to a project to publish a reference book explaining all the various sources of information on international debt statistics and the extent and ways in which they overlap with each other. This should considerably help banks in their attempts to collate the various different statistical series published by the World Bank, the OECD and the BIS in particular.

However, the idea of a central store-house where information on outstanding and new loans to all international borrowers would be stored (and even, constantly updated) has been dropped.

M.C.

Line-up on debt

ONE WAY and another the subject of sovereign borrowing is likely to dominate international banking for some time to come. Governments and public sector entities are responsible for the bulk of the medium-term borrowing from international banks, while last year they became increasingly important on the international bond markets, accounting for well over a third of all issues.

It is now generally recognised — though the view was regarded as heretical even a few years ago — that international loans to governments will not be repaid except in the most technical sense; that borrowers are going to have access to the international markets to refinance maturing debt as well as to raise new debt, and that foreign currency debt is something which many governments will now have as a permanent feature of their borrowing. However the next few years are expecetd to be a particularly difficult period for the system.

This is partly because there is a ballooning of maturing debt coinciding with a cutback in the capacity of the debtor countries to earn foreign currency to repay their loans as the result of increased protectionism in the industrialised world; and partly because the markets — and the international institutions, central banks and governments of both borrowing and lending countries — are still in the stage of building up expertise in the management of a new situation.

The problems of the ballooning debt maturity have been recently analysed by Amex Bank. It reckons that amortisation of medium-term Eurocurrency loans will rise to \$16.4bn. this year from \$11.6bn. last year and \$5.2bn. in 1976. It had earlier made estimates to the effect that by 1980 50 per cent. of non-oil less developed countries' (LDCs) borrowing would be needed for refinancing purposes. By 1985, Amex says, the percentage rises to 64 per cent.

As has been pointed out frequently, a key point about any survey of the countries' international debt is that the situation varies considerably from country to country and that no one country should be lumped together with another.

The rest of this survey is therefore devoted to special articles on the position of individual countries' outstanding debt situation, foreign currency earning prospects and future external borrowing requirement.

Mary Campbell

Britain

An early start to repayment of overseas debts

THE BRITISH Government has started a programme of large-scale early repayment of some of the massive overseas borrowings built up in the past few years. In 1978 so far prepayments of debt of \$1.5bn. have been announced; taking account of possible further moves and debt maturing anyway before next December the total for this year is likely to be at least \$3bn. This will be only partly cut into by new borrowings from abroad.

The U.K. has amassed large borrowings in the past few years to finance both current account deficits, which totalled £6.44bn. (or \$12.5bn.) between 1974 and 1976 and capital outflows associated with the recurrent sterling crises of 1975-76. Government and other public sector bodies raised a net total of \$16.5bn. between the end of 1973 and the end of 1977, of which \$4.9bn. came from the International Monetary Fund, \$4bn. from two syndicated credits raised in the Euromarkets and nearly \$700m. from foreign currency bonds issued last year to official sterling balance holders, while \$7bn. was for nationalised industries and other public sector bodies. The latter was mainly raised under the terms of the exchange cover scheme.

Most of this money was for five or seven years with the result that by late last autumn the U.K. faced debt repayments of \$16bn. before 1982. The maturities build up from \$0.9bn. in 1978 to \$2.4bn. next year and remain above \$3½bn. until 1983 with a peak of \$5.3bn. in 1981.

The priority to be attached to debt repayment has, however, become a controversial issue in the debate about the use of North Sea oil revenues. On the one hand, it is argued—for example, by the National Institute for Economic and Social Research — that repayment should not rank high on the alternative uses since for a surplus country like the U.K. foreign debt is both cheap and fairly easily recyclable.

It has also been suggested that the maintenance of a fairly high level of overseas debt by past standards is consistent with the existence of large, and probably continuing, surpluses among the oil-producing countries. Moreover, the current account surpluses required in the U.K. to repay the debt will act as a constraint on the desired growth of domestic demand.

The Bank of England has put a different emphasis. In its December Quarterly Bulletin, the Bank said it was desirable for the current account to stay in surplus; although the repayment burden might be eased by some new borrowing, "it will clearly be desirable to provide for a net reduction of debt on a scale that is appreciable in relation to maturing repayment obligations."

Attractions

Although the main North Sea decisions have not yet been taken, the Government has already decided to start repayment in order to flatten the hump of maturities in the early 1980s. There are obvious attractions in repaying now when the current account is in large surplus rather than relying on repaying later when the current account prospects are much less certain. Moreover, the fivefold rise in the official reserves during 1977 to \$20.56bn. has created freedom of manoeuvre, so that repayments this year will exactly match the estimated current surplus.

Within this programme, the main preference is for repaying debt which matures in the peak years and has a high or fixed interest rate above current market levels. Moreover, in some cases such as the recently announced \$500m. prepayment by the Electricity Council, there is also an exchange rate gain since the loan was raised in November, 1976 when sterling was much lower than it is now.

The U.K. has also started repaying part of its loans to the IMF, \$1bn. is due to be repaid shortly. This will be mainly from the first credit tranche drawn in May 1976 since this money will do much to boost the IMF's own resources available for lending; the money from the other tranches and the oil facility will mainly be returned to the original lenders.

A certain amount of new borrowing is also being undertaken. A total of \$400m. has been raised since last October, chiefly from the European Investment Bank and the European Coal and Steel Community. There may also have been fund-raising on Euromarkets where money can be obtained with maturity dates after the repayment hump in the early 1980s.

But there is only a limited amount of finance available for longer than five or seven years so the main drive for new borrowings is unlikely to occur for a year or two. In addition, some public bodies — notably British National Oil Corporation and British Airways—may raise money overseas where this is appropriate for operational reasons.

Peter Riddell

France

Left-wing victory would not worry foreign bankers unduly

WHILE IN no sense a non-event, the general elections due in France next month could well turn out to be much less important than some bankers fear. The country's dollar-denominated indebtedness should retain its triple A rating even if the Left coalition wins a majority. One of the two main bond rating organisations, Standard and Poor's Corporation, has recently re-evaluated the country's debt and confirmed that France's rating as a top-quality borrower would not be affected by the outcome of the March election.

The Standard and Poor's report points out that all parties of the Left coalition, the Radicau de Gauche, the Socialists and the Communists, who have called for different degrees of nationalisation, are all agreed about the "principle of compensation to investors in nationalised industries." The report covered dollar-denominated bonds floated on the Eurodollar and U.S. bond markets, both Government-issued and Government-guaranteed.

The Standard and Poor's report confirms the view of most banks which are active in French loans and bonds. The possible victory of the Left coalition is not viewed as a disaster but simply as a fact of life which may well have to be faced. "No Reds under the bed scare here," one banker commented when asked how he viewed a possible Left coalition victory. "France will remain a country with a diversified economy, self-sufficient in many respects, whose indebtedness overall is far from worrying" this banker added.

Another commented that before running scared about what a Left-wing government might do, it was best to retain one's cool. He pointed out that European investors had learnt to live with Left-wing parties, including Communists, and that it was unlikely a Left coalition government would impose measures which the bulk of the French people disliked. "Italy raises bonds and France will always be in a much better position than Italy, whatever the outcome of the election."

Despite the fact that France raised as much money in overseas borrowings, between January 1, 1976 and May 20, 1977 as it did in the years up to the end of 1975, bankers are not worried at the overall level of the French debt. The country started borrowing from a very low debt base and the funds borrowed are clearly earmarked for projects which have a discernable cash flow.

Record

Some bankers go further and suggest that a government of the Left will go out of its way to show that it is "responsible" in international financial affairs. That many of the Socialist Party leader (Mr. Mitterrand's) advisers are senior civil servants in the Ministry of Finance is not lost on bankers. The denizens of the "forteresse de la rue de Rivoli" as the Ministry is sometimes nicknamed will no doubt ensure that the Socialists, which are the dominant partner in the Left coalition, keep to the straight and narrow. Last but not least, France has an impeccable record historically where the repayment of debts is concerned, the only hiatus having occurred during World War II.

France was very active as a borrower last year. It raised more than twice the 1976 total, though more in the form of medium-term credits than bonds. The Yankee bond market was successfully tapped and the foreign yen market approached for the first time. One major new potential borrower came to the bond market with a floating rate note last autumn—the Caisse Nationale du Credit Agricole.

French borrowers were able to achieve the finest terms in the credit market, as befits names considered absolutely prime, such as Electricite de France (EDF).

EDF raised eight-year money on a split spread of ⅝ per cent. and ¾ per cent. over the interbank rate last autumn and the fact that U.S. banks did not join did not prevent the operation from being very successful. The Caisse Nationale des Telecommunications got the same spread on a ten-year credit last month from two Japanese banks which refused to agree to the ½ per cent. spread which the French Treasury was keen to get.

The greater recourse to medium-term credits was no surprise as there is a lot of French paper around in the bond market. Despite some suggestions a borrowing spree would happen before the March elections, no greater momentum developed. EDF raised money earlier than it needed more to take advantage of the borrowers' market than for any other reason.

Official figures put France's external guaranteed debt at Frs.66.3bn. and direct funded debt of the Republic of France at Frs.5.7bn. a total of Frs.72bn. The debt is certainly higher overall if private debt is included but no accurate figures are available. More than half of the external public debt is denominated in dollars and most of it is not in the name of the State, but of a string of autonomous and semi-autonomous public agencies and nationalised services.

Names like Electricite de France, Credit National, Banque Francaise du Commerce Exterieur, Caisse Nationale des Telecommunications and Societe Nationale des Chemins de Fer Francais are familiar and well respected in the market.

Comparing the composition of the debt outstanding at December 31, 1975, and the end of May 1977, some interesting changes too place. While the total amount of borrowings denominated in dollars was more or less the same (\$3.5bn. against \$3.9bn.) the amount of borrowings denominated in Swiss francs rose sharply (from Sw.Frs.1.28bn. to Sw.Frs.2.8bn.) while Deutsche-mark denominated borrowings fell (from DM3bn. to DM1.7bn.). Looking ta 1977 as a whole, however, borrowings denominated in D-marks increased over and above those denominated in Swiss francs.

The currency risk is a factor to be considered, although in some cases it is negligible because a company will simply roll over its debt and the very much lower rates of interest on Swiss franc loans for example make the exercise more than worthwhile. If the Left coalition came to power, Swiss franc borrowings may be a little difficult for a while but no more.

Where borrowings in DM-denominated bonds are concerned, dealers say they would expect the secondary market to take a knock. There is already some evidence of selling of French names, no doubt by French holders, ahead of the election. The same phenomena is perceptible in the Dollar sectors of the market again where French names are concernd. Some dealers, however, point out they have clients just waiting for good buying opportunities at lower levels. Here again, raising money should not prove difficult for a Left coalition Government, unless matters went disastrously wrong.

Currency

Guessing how much money France may want to borrow this year abroad is not easy. Prime Minister Raymond Barre has considerably tightened the rules on borrowing in the domestic capital market which in any event is not very large and continuing recourse to the Euromarkets is therefore to be expected.

France's balance of payments deficit has been cut by half in 1977 as compared with 1976 and is expected to narrow further this year, which suggests that the country's foreign currency requirements will be less this year than last. Yet this will not necessarily be the case as: (1) the extent to which the balance of payments deficit improves is not certain; (2) the Government which emerges from the elections, whether a conservative one under Raymond Barre or another Prime Minister or a Left-wing one might turn out to have very different objectives, and therefore financing needs, from the present one. (3) France's domestic credit market is getting increasingly sick at a time when the borrowing requirements of nationalised companies such as EAF are increasing.

Francis Ghiles

Italy

Borrowers must get their timing right

ITALIAN ACTIVITY in Euromarkets, modest at the best of times, tends to go in cycles which are not unrelated to internal political developments. Viewed from abroad, this is but another way of referring to the so-called "Italian risk," and there is a fair correlation — in sequence but not always in timing — between political crises, payments difficulties and pressures on the exchange rate. Since the political crises tend to be frequent, timing becomes important for potential borrowers.

Italian companies were effectively out of the Euromarkets for a couple of years until the State medium-term credit agency, Istituto Mobiliare Italiano (IMI), led the way back last year with a $200m. issue, helped by the fact that the International Monetary Fund (IMF) had earlier signalled its agreement to a further Italian drawing. This IMF facility was a mere $530m. What was important, following protracted negotiations, was something that amounted to the IMF's certificate of good national housekeeping, a useful credit card for Italy's best names when seeking funds.

Concern

These best Italian names tend to be few even in good times, and the one and three-eighths margin over LIBOR on the IMI issue must have reflected some element of concern over the Italian risk. Others have since been to the market, including ENI, the State energy concern, with another $200m. loan, and earlier this year ENEL, the State power undertaking, raised a similar sum through a syndicate headed by S. G. Warburg. Other fundings are thought to be in the pipeline, including a reported operation for one of the country's few highly rated private companies, the car giant Fiat.

But the recovery of Italy's international credibility has already been put at some risk by the latest political crisis, one that in a sense is more serious than previous crises in that it results from a direct Communist demand for participation in government. The minority Christian Democrat Government has resigned, and there are few signs that a new administration can be speedily formed.

But any political agreement must, inevitably it seems, enhance the position of the Communist Party (PCI) which already commands more than one-third of the national vote, although short of securing direct representation in the Cabinet. The alternative to a compromise agreement is another general election, which would not necessarily alter significantly the existing Parliamentary deadlock. Either way the immediate horizon for Italy is uncertain.

It is certainly not the best climate for Italian businesses—whether State sector or private—to be in the market for funds, and some foreign bankers have even expressed surprise that the Lira-U.S. dollar exchange rate has held more or less stable. The weakness of the dollar itself has of course helped, and both have moved down in line against the stronger European currencies. There has been some Bank of Italy support intervention, but so far there are no indications that it has been significant.

On the plus side as it were, Italy has just returned a balance of payments surplus in 1977 of close on $2.5bn., while the available reserves of the Bank of Italy currently exceed $8bn. against around only $1bn. at the beginning of 1976 when the authorities were obliged to close down temporarily the foreign exchange market in another political crisis.

Greatly

The current level of the reserves reflects in fact greatly expanded borrowing by the Italian banking system itself. Its net indebtedness abroad, which was less than $500m. two years ago, had risen to more than $7bn. by the middle of last year. Indeed, for a period—however theoretical the possibility—foreign banks had sufficient net claims with the Italian banking system to buy up the Bank of Italy's entire foreign exchange reserves.

There was some decline in this indebtedness in the second half of last year, but an over-liquid international banking system has clearly been more than agreeable to extend its credit lines to Italian institutions, although admittedly the process was assisted positively by administrative measures to support the lira, including the temporary obligation to finance all advance payments of imports in foreign exchange.

This residual liability of the domestic banking system should be viewed against the latest figures for Italy's total indebtedness for both monetary and non-monetary institutions, of close on $20bn. Sig. Giulio Andreotti, the outgoing Prime Minister, has made it clear in his negotiations with opposition parties and the trade unions that there is little room to manoeuvre in terms of short-term economic management, since the Government must this year meet or rollover—or a combination of both—debt and interest payments in excess of $4bn.

Thus the Treasury itself has little room for manoeuvre and given a resolution of the present political crisis will itself be seeking new facilities abroad this year. Meanwhile the industrial sector and its backstops, the credit institutions, are also in the market and in essence have nowhere to go but to international markets, since the capital market in Italy itself is for practical purposes non-existent.

Equally non-existent, unfortunately, is corporate profitability at a level—in the relatively few cases where it actually does exist—to allow any significant measure of self-financing for development. Instead, there is a growing burden on most major companies to meet interest commitments, let alone repay their notionally short-term debts. All in all, it is not an attractive lending proposition.

Dominick J. Coyle

Japan

Short-term liability shrinking fast

JAPANESE BANKS had net short-term overseas liabilities of $12.8bn. in November last year, a figure equal to over half of Japan's official foreign exchange reserves. Their liabilities have, however, shrunk considerably since 1974. They are likely to shrink further in future, probably eventually reaching zero or being replaced by net assets.

The main source of the short-term overseas liabilities of Japanese banks is that Japan has traditionally borrowed in the U.S. for import usance financing (loans required to finance imports in transit which usually mature after six months). Lines of credit from U.S. banks for this purpose originally served as a means of support to Japan's shaky international payments situation but have continued in existence chiefly because of favourable interest rate differentials. In other words it has normally been cheaper for Japanese importers to finance their imports with dollars borrowed in the U.S. (or in Europe) than to borrow yen and pay the higher interest rates that have traditionally ruled in Japan.

The amount of short-term liabilities of Japanese banks grew sharply immediately after the 1973 oil crisis for two reasons. One was that the quadrupling of oil prices automatically increased the value of Japan's exports and thus also increased the amount of funds needed to finance imports. The second reason was that on the eve of the oil crisis Japanese banks had become involved in competitive long-term overseas lending. These loans had to be financed by extensive short-term borrowing in the Euromarkets and elsewhere—a situation which led to the emergence of the now famous "Japan-rate" premium on loans to Japanese banks in 1974 and 1975.

Ban

Concern about the short-term liability problem and about the excessive rates Japanese banks were being made to pay for new loans led the Ministry of Finance in July 1974 to place a ban on overseas long-term lending in foreign currencies by Japanese banks. The ban was gradually relaxed from November 1976 onwards but guidelines are still in existence to prevent or discourage Japanese banks from lending long and borrowing short as they had been doing.

The volume of overseas short-term liabilities related to trade financing started to fall last spring when Japanese interest rates for the first time in many years dipped below U.S. interest rates. This produced the phenomenon known in Japan as "Yen shift"—meaning simply that importers began to pay off their overseas usance finance loans while taking out new loans in yen to finance future imports. The maximum rate of yen shift towards the middle of last year, was around $1bn. per month. But the process came to a halt in the autumn as a result of upward pressures on the yen-dollar exchange rate.

The effect of these was to create a premium on the forward yen on the Tokyo foreign exchange market which in turn led to a sharp increase in the costs of importers borrowing yen to finance import contracts denominated in dollars (as most of Japan's imports currently are). The yen shift remains in suspense but could be resumed later this year if and when an atmosphere of stability returns to the foreign exchange market.

It needs to be emphasised that talk of the overseas liabilites of Japanese banks relates to the short-term position (up to one year) not to medium and long-term borrowing and lending. The Government publishes no figures on the long-term position of the banks but it has been unofficially calculated that they had net long-term overseas assets of around $9bn. at the end of last year. Japanese banks are once again becoming actively involved in syndicated dollar loans to foreign borrowers, so this figure could rise. Very recently there has also been an increase in long-term yen-dominated loans to foreign borrowers.

Charles Smith

CANADA'S BALANCE OF PAYMENTS

($Cbn.)*

	1977	1978
Merchandise balance	+2.9	+4.2
Service balance†	−7.7	−8.6
Net transfers	+0.4	+0.4
Current account	−4.4	−4.0
Net long-term capital flow	+5.5	+6.0
Net short-term capital flow	−2.3	n.a.
Net capital flow	+3.2	n.a.
Change to reserves	−1.2	n.a.

* Estimates. † Includes dividends and interest $C3.5bn. in 1977 and $C4.2bn. in 1978.

Canada

Worrying decline in foreign investment

THE STANDING of Canadian borrowers in international markets has remained remarkably good despite political and economic setbacks that have taken away some of the gloss of the early 1970s.

The election in 1976 of a Government in the French-speaking province of Quebec farther to the political Left than is usual in North America, and generally thought to be separatist, frightened investors and set off a trend that caused the Canadian dollar to fall from an exchange rate of U.S.$1.03 to somewhere close to $0.90 of late. The decline had, however, been overdue; the rate had been held up by heavy capital inflows.

Both events have had compensating advantages. The devaluation has improved the competitiveness of Canadian industry and has led to a healthy recovery of the merchandise account. And the Finance Minister of Quebec, Mr. Jacques Parizeau, agreeably surprised the business world with a budget of financial orthodoxy last year.

Calmer

Taken together with an assessment of the underlying figures, the devaluation and the Parizeau budget make possible a calmer discussion than looked likely 18 months ago about whether Canada is overborrowed. Expressed as a percentage of GNP, total gross external indebtedness (including both direct and portfolio investment) is well below its peak of almost 40 per cent. in the early 1960s at somewhere around 49 per cent., according to a Bank of Montreal estimate. The net debt at end-1977 amounted to 26 per cent. of GNP.

The absolute figures are Can.$100bn. gross (including portfolio debt of Can.$41bn.) and Can.$54bn. net. The interest bill has risen from Can.$1.9bn. in 1976 to Can.$2.9bn. in 1977, helped along by the devaluation, and can be estimated at Can.$3.4bn. to Can.$3.5bn. for this year.

Canadian economists do not find those figures alarming in themselves, especially since Canada traditionally depends heavily on capital imports. What does worry them is the rapid decline of the role of foreign direct investment in the composition of capital imports, and the increase in straight borrowing.

That is in part an inevitable trend, given the great and growing importance of energy projects in the Canadian economy. The two biggest borrowers, Hydro-Quebec and Ontario Hydro, are provincially owned utilities. Wall Street's predilection for energy ventures has helped them greatly in the past, though the Quebec company has found life a little harder since the advent of the Parti Quebecois Government.

Hydro-Quebec needs $Can.2bn. to $2.5bn. a year for the gigantic James Bay power development which will be coming on stream progressively between 1980 and 1985. Of this year's requirement U.S.$1.25bn. has already been arranged from an international consortium; about $750m. was intended to be drawn early in the year, the rest remaining as a standby.

Trip

Ontario Hydro's borrowing is done for it by the provincial Government. The Ontario Treasurer, Mr. Darcy McKeough, has just tested the temperature on a European trip that took him to Switzerland, W. Germany, and London. He estimates that Hydro will need Can.$1.7bn. this year, rising to Can.$3bn. in 1982. Half of this year's borrowing is likely to be done outside Canada, largely but not exclusively on Wall Street.

From a balance of payments point of view Canada will need capital inflows of between Can.$4bn. and Can.$4.5bn. this year to make good the current account deficit. The net inflow of long-term capital may, however, exceed last year's Can.$5.5bn. by a small margin.

If so, the reserves might be strengthened after last year's outflow of Can$1.2bn. That raises the question of the U.S. dollar standby which the Canadian Government arranged last year with an international consortium. The need to draw down any of this money may be receding. On the other hand it may be psychologically wise to draw when things are going well rather than when they are bad.

One indicator to watch will be the exchange rate. The authorities are not dissatisfied with the devaluation vis-a-vis the U.S. dollar (and the greater devaluation against currencies such as the yen and the D-Mark); but there are signs that they would dislike the idea of the Canadian dollar dipping below U.S. $0.90.

W. L. Luetkens

The Nordic Zone

Welcome applicants on a growing scale

TAKEN AS a bloc, the Nordic countries have become the principal customers of the Euromarkets over the past few years. The first major leap in borrowing came when Norway needed to Finance North Sea oil development. Then in 1975 the Swedish authorities, prompted by the oil crisis and the subsequent recession, switched their exchange policy to encourage foreign borrowing. Denmark and Finland have been traditional borrowers abroad and are already well into amortisation and rolling over of debts.

All four countries have been carrying a disproportionate share of the OECD countries' combined payments deficit. Thus during the 1974-77 period the Scandinavians were responsible for close to 40 per cent. of the combined deficit of $72bn. recorded by the European bloc of the OECD. Current indications are that the deficits will be only marginally reduced this year and that the Nordic countries will again be borrowing heavily on the Euromarkets. They will probably be looking for around $10bn. in new loans.

A noticeable feature last year was the increase in foreign loans taken up by public authorities, induced mainly by expanding budget deficits and the decline in the borrowing interest of the private sectors. The Swedish State came on to the market for the first time and on a major scale. Denmark borrowed heavily to build up its reserves. The Bank of Norway increased its borrowing, to cover both state oil investments and the budget shortfall, while the Finnish Government took up a small loan and announced its intention of borrowing more this year.

Leaving aside the effect of the increased oil prices, which was especially severe on Sweden and Denmark, the underlying reason for the Nordic countries' persistent payments problems has been the decline in the competitive power of their traditional currency-earning industries. On foreign markets, which have been either shrinking or growing less swiftly, Nordic pulp and paper, engineering products and shipping services have lost shares because domestic costs have kept their prices too high.

With the exception of Norway, the Nordic countries took corrective domestic policy measures last year. Sweden led the way by devaluing twice and by leaving the European currency "snake." Norway and Denmark followed the devaluation of the krona half-way but remained in the "snake." Finland, which is not a "snake" member but has close trade links with the Scandinavians, also adjusted the Finnmark.

Estimate

Sweden's foreign borrowing last year totalled some SKr21bn. (£2.3bn.), roughly equal to the estimated payments deficit, with the State taking up loans equivalent to SKr9.8bn., when converted at the exchange rates prevailing at the end of the year. The country's net foreign debt is less than SKr21bn. since it started the year at about zero. There has been controversy about the exact figure with some officials arguing that official statistics ignore patent and royalty income and exaggerate the deficit. Within the Riksbank (Central Bank) the current estimate is that the net debt was around SKr12bn. at the end of 1977.

The payments position is not expected to improve this year and the gross foreign borrowing requirement will be roughly the same as for 1977, around Sw.Kr.20bn. Foreign bankers who expect the Swedish State to kick off the 1978 programme with a repetition of last year's $1bn. syndicated loan, may be disappointed, however. The Swedes' strategy is not yet clarified, partly because of uncertainty over the extent of company borrowings, and partly because Parliament still has to approve state guarantees for foreign loans, including those for the shipyards and the new steel company. One shipyard alone, Kockums, which is building two LNG tankers under State guarantee, could well be looking for foreign loans equivalent to Sw.Kr.1bn. this year.

After the $1bn. syndicated loan, with which the National Debt Office marked its arrival on the international money market last year, its strategy has been to go for low interest, fixed rate loans and to vary its markets to avoid saturation. For example, a yen loan is likely later this year. To illustrate the anticipated scale of Swedish foreign borrowing over the next few years, the Capital Market Commission has just estimated that the country's net foreign debt will be in the Sw.Kr.120-150bn. range by 1985.

Norway's payments deficit last year broke through all predictions and ended at an estimated NKr.27.5bn. (£2.8bn.), leaving the country with a net foreign debt of around NKr.80bn. Of this some NKr.35bn. is attributable to North Sea oil development and NKr.26bn. to the shipping fleet, but a feature of the last two years has been the acceleration in borrowing by other sectors as well.

The oil operations are scheduled to show a modest surplus for the first time this year and the preliminary state budget assumed a decline in the payments deficit to NKr.16bn., which would have to be covered by foreign loans. More recent trade predictions suggest that this could be an underestimate and Norwegian State borrowing could show a big advance in 1978.

The budget assumed that two State banks, Kommunalbanken (which serves local authorities) and Industribanken, would take up foreign loans valued at NKr.3.7bn. Of this sum NKr.1.3bn. had already been negotiated last year. The State oil company, Statoil, whose foreign capital needs have so far been met by State borrowing, has been authorised to go on to the international market on its own account for the first time to the tune of NKr.2bn. To cap Norwegian public borrowing, Parliament in December authorised the Government to take up further foreign loans equivalent to NKr.7bn.

The Bank of Norway has so far preferred to take loans at fixed rates and on five-year terms in three main currencies, dollars, Deutschemarks and Swiss francs. The decision to borrow over five years arose from the assumption that the income from North Sea Oil would bring Norway into payments surplus at the end of the 1970s. This no longer being the case, the Bank of Norway will have to renew some of those loans, starting this year.

Denmark had a current account deficit of DKr.9.5bn. (£855m.) last year and a net capital import of DKr.15.3bn. The main bulk of the difference went to strengthen the reserves, which reached a record level of over DKr.13bn. in November before ending the year at DKr.12.3bn. The net foreign debt was around DKr.55bn. or about 17 per cent. of GNP at the end of the year. The strong growth of Government and public foreign borrowing has characterised the Danish currency situation over the last two years but official policy is to return the market to the private sector as much as possible in 1978.

The payments deficit is scheduled to improve to DKr.7-7.5bn. this year, which will be roughly the foreign borrowing requirement, assuming there is no change in the country's international liquidity. The Government will try to hold the currency reserves at their present level and manipulate monetary policy to induce companies to seek finance abroad. This programme has two possible complications: a renewal of pressure on the krone within the European currency "snake" and the tendency, which developed in 1977, for companies to borrow abroad not to meet their trading requirements but in order to place the proceeds in high-interest Danish bonds.

Finland had a total gross capital import last year of FM6.5bn. (£830m.) of which FM1.2bn. represented drawings by the Bank of Finland on its standby credits. Of the remaining FM5.3bn., amortisations accounted for FM2.7bn., leaving a net of FM2.6bn. The country's foreign debt at the end of the year, after making adjustments for the depreciation of the Finnmark, was equivalent to FM28.6bn. or almost one quarter of GNP.

The 1977 current account deficit was limited to Kr.700m., less than half the forecast at the beginning of the year, and it is hoped to get the account into balance this year. The government went into the international money market last year to the tune of FM900m., in order to finance industrial stimulation measures. It will borrow more this year. The Bank of Finland estimates that other foreign borrowing will be of roughly the same size as last year's, that is, some FM 4.4bn., of which FM2.1bn. was government-guaranteed.

William Dullforce

Comecon

Accepted as a good risk in banking parlours

ALTHOUGH COMECON remains a major borrower on the international capital markets, developments in recent months have shown it to be a less controversial one than it used to be. Compared with a couple of years ago when doubts were raised in every quarter about the wisdom of lending to the East Europeans, the tone of comment in financial circles has undergone a marked change. Indeed, it has almost become fashionable to come up with good reasons why the West should lend to Comecon.

One explanation is that time has disentangled the various economic and political considerations behind lending to East Europe. And the latter (usually negative and exploited as ammunition in the ideological war) have yielded to the former, which are generally positive. The prevailing view in banking circles now appears to be that while certain "technical" problems exist, Comecon is a good risk both because of its record and the stable, tightly run nature of its economic system.

Frank

The more frank among the banking community will also admit that Comecon is currently very good for business, and that those "technical" problems, like lending limits, can always be resolved. But there have been other, more deep-rooted, changes to the picture.

The most important is that Comecon's financial situation has ceased to deteriorate, and may actually be improving. This is hard to judge accurately because of the lack of reliable information. But an improving trend is certainly visible in the OECD trade statistics.

These show that Comecon's external payments crisis reached a peak in 1975, the year when its visible hard currency deficit hit $8bn., having been in surplus only four years earlier. That was also the year of the new Five Year Plans, all of which contained tough policy statements about the need to achieve a better external payments balance, if possible by raising exports, if not by cutting imports.

There was an immediate, if modest, improvement in 1976 when the deficit narrowed to some $6.5bn. But this was no reason for self-congratulation in East Europe where government and party leaders continued to impress upon their people the need to raise exports; part of the blame though was laid on the West where the growing tide of protectionism was threatening staple East European exports such as food, metal products and textiles.

The improvement continued into 1977 where the deficit for the first half year, the latest figures available from OECD, was running at an annual rate of some $5.5bn., with the second quarter producing the best monthly average for several years.

And the Comecon countries clearly want to maintain this trend, if possible. The plans for 1978 show much higher growth targets for exports than imports (for example Poland expects to increase exports by 10.3 per cent., and imports by 3.9 per cent.), and several measures are being taken to make producers more foreign trade-conscious, including the restructuring of wholesale prices to reflect world trends, material incentives for exporters, and the establishment of industries specifically for export.

While these improvements are an indication of how centrally-managed economies can set out to achieve specific goals, performance has varied from country to country. The Soviet Union managed, according to its own statistics, to move back into surplus with the West in mid-1977. But other countries like Hungary and Bulgaria have got deeper into debt because of stagnation in either the value or volume of their exports.

Poland, whose position has seemed the most precarious, narrowed its trade gap considerably in the first half of 1977. But that was before flooding ruined part of the harvest and forced the government to import several million tons of grain. There were gradual improvements in the remaining countries.

These developments are reflected in a levelling out of the rate of Comecon borrowing in the Euromarkets. According to the OECD's Financial Market Trends, identified medium-term Euro-credits rose from $2.48bn. in 1976 to a provisionally estimated $3.1bn. last year, a record level. But this rise was almost wholly accounted for by the Comecon International Investment Bank (IIB), which has been borrowing heavily to finance large multi-national projects like the Orenburg pipeline.

Excluded

If the rise in IIB borrowing is excluded, loans totalled about $2.5bn., roughly the same as in 1976. Within this figure, only two countries, East Germany and Romania, borrowed more than the previous year. All other countries borrowed less.

Last year's borrowings brought Comecon's total Eurocurrency loans since 1972, the year it began its steady descent into the red, to some $10bn. The accumulated visible trade deficit over the same period amounted to some $23bn., which shows that Comecon used the Euromarkets to finance less than half its total deficit.

But although Comecon has demonstrated its ability to exercise a measurable degree of control over its foreign trade, its position in the Euromarkets is unquestionably weaker than it has been. Above all, the differentials in the rates being paid by different countries are much wider than they used to be. Both the Russian Foreign Trade Bank and Czechoslovakia have broken through the 1 per cent. barrier, and Romania is expected to do so. The latest loan raised by the Hungarian National Bank carried a spread of 1¼ per cent. Poland's last loan carried 1⅝-1¾ per cent.

Economically, Comecon is not as vigorous as it might be. Several factors, including poor agricultural results, low labour productivity and slowness to adapt, have forced growth rates to slow down. The Soviet Union has just notched up the slowest growth of any year since the War. There may also be an element of deliberate restraint as governments try to rein in import demand.

Comecon is also having to cope with intensified pressure from Western banks for more information. Poland has begun to yield; its recent $250m. loan for copper development carried what by Comecon standards was an exceptional amount of documentation.

On the other hand, that loan also showed how western lending limits may be circumvented. Instead of being made out to the Bank Handlowy, which normally raises Polish loans, the loan went to the Lubin Copper Combine, and the U.S. Controller of the Currency agreed that this was an independent borrower for lending limit purposes. If more such entities are recognised as borrowers in their own right, the scope for Polish, and indeed Comecon, borrowing would be greatly expanded.

Another reason for uncertainty over Comecon is that the coming year will bring a marked change in the nature of its financial problems. In addition to grappling with its trade deficit Comecon will increasingly have to confront the problem of debt repayment as its maturities on loans borrowed earlier in the decade fall due. Figures produced by the BIS indicate that repayments will rise sharply in 1978-79 for almost every Comecon member, except Poland which has a breathing space until 1980-81 due to its more favourable maturity structure.

Although this was foreseen by the Comecon countries it could lead to difficulties. Much of the original borrowing went to import capital equipment which was to become operational within a given timespan and produce goods for the hard currency markets to pay off the loans. In practice, it has not always turned out like that. There have been considerable delays in the commissioning of imported plant and equipment throughout the region. And where plant is ready, it is having difficulty finding ready markets in the recession-hit west.

In other words, through a combination of delay and misfortune, Comecon's hard currency earning capacity is not as high as planned. Although this is by no means disastrous, it does suggest that Comecon will remain a big borrower for the next year at least.

David Lascelles

EUROMARKETS XIII

Spain

Lenders put their faith in long-term prospects

PAIN BORROWED less on the uromarket last year, both in bsolute and relative terms. rom being the second most im- ortant raiser of funds in 1976, slipped to sixth position last ear. Spanish borrowers raised 1.9bn. last year as against just ver $2bn. the year before.

Two features of this fund- aising activity stand out. First, panish borrowers were able o benefit fully from the shaving f spreads, lengthening of maturities and longer grace eriods which characterised the market. The $300m. loan last utumn broke the 1 per cent. pread barrier.

There are no signs of any hange of heart in the market although some banks are elieved to be closer to their eiling on lending to Spain. lany of the loans for Spanish borrowers in recent months ave been noticeably smaller han six months or a year ago. Bank of International Settle- ents (BIS) figures on inter- ational lending released last ummer indicate that the xternal claims of the world's major banks on Spain amounted $7.323bn. at the end of 1976. f this, $3.221bn. matured last ear, $648m. is due to mature n 1978 and $2.976bn. there- fter.

A different set of BIS figures eleased last autumn showed hat the amount owed to inter- ational banks by Spain last une, net of the country's eposits with banks, amounted $3.7bn.; in June, 1976, this gure stood at $103m.

The enthusiasm for lending Spain may seem paradoxical nsofar as that country is in the hroes of a deep recession which romises to worsen. But quite part from the fact that it would e unthinkable that the West general and the EEC in par- cular should ever cease to support Spain in its transition to a democratic society, the authorities in Madrid have taken measures which bankers feel will improve the situation in the longer term. Banks do not so much worry because a situa- tion is bad as when a situation is known to be bad but goes unacknowledged by the authori- ties. Such is clearly not the case.

It is also the case that Spain's foreign account position is improving—it is thought that last year's current account deficit was around $2.8m., as against $4.3bn. in 1976, and it is hoped that this year's may be as low as $2bn. Reserves at the end of last year were a healthy $6.13bn., against $5.28bn. at the end of 1976.

However, the position of Spanish industry, and in particular that of many large companies, private or State-controlled, such as have been borrowing extensively on the Euromarkets, is weak and promises to get weaker. Spanish inflation also, following an extended period where Government control was virtually absent, climbed to over 27 per cent. last year.

Guideline

The Government is now fighting this with the combination of a 17 per cent. credit increase guideline for this year, and a 22 per cent. target for wage settlements. One has only to observe how far the credit expansion guideline is beneath both the wage rise target and the current inflation level to see how drastic a credit squeeze it implies. This could in the course of the year make foreign leaders more cautious about lending to Spain.

One development that could make the markets nervous, though it probably in fact should not, is if some banks fold, particularly as Spanish banks are estimated to own over 40 per cent. of the country's industry. Already last month the Bank of Spain had to take over the administration of a small Spanish bank, the Banco de Navarra. The problem is that many smaller Spanish banks have paid high interest rates in order to compete with the larger banks, and to finance these have got unduly involved in speculative investment. Thus they are in a poor position to cope with the current credit squeeze.

But though the collapse of some small banks could produce a domino movement affecting some rather larger ones, there is no likely prospect of the seven banking giants that dominate Spain's financial system — and a good deal of its industry — being affected. Not only do these banks have a tradition of being conservatively financed; they have profits which in the past have been large enough to stand some squeezing. In any case, no Government could afford the political repercussions of letting any of them go to the wall.

It is at the problems of industry — particularly those of the steel, shipbuilding, and capital goods sectors — that prospective foreign lenders need to look very carefully indeed. The first two in particular are in deep trouble throughout the world. In Spain, their problems are exacerbated by two legacies of the Franco era—heavy dependence on loan finance, due to long years of artificially cheap State-directed credit, and the acute difficulty of shedding labour.

Already there have been numerous reports of companies defaulting on social security payments, payments to suppliers, and even wages. There have also been a number of technical defaults on loans to Spanish borrowers—to which lenders often turn a blind eye because of the problems caused by default clauses.

Quite how much worse the situation gets will of course depend to a great extent on how rapidly credit expands and wages rise. There is good news on wages: indications so far suggest that their rate of increase is falling off, and may even be under 22 per cent. at the end of the year.

However, the rate of credit expansion in the past four months has actually been under the Government target. This development is hard to interpret, but it may indicate that Spanish banks—hardly the most sophisticated of institutions when it comes to assessing credit risks—are becoming wary of lending to industry.

The current Government wants very much to avoid rescuing lame ducks, something that was extensively practised under Franco. But particularly in the shipbuilding sector — where the State holding company Instituto Nacional de Industria controls 92 per cent. of capacity—and in steel, where it controls one of the two main producers, Ensidesa, it will have to play a prominent part in deciding what course events take.

Unfortunate

In neither case, however, does the Ministry of Industry yet have very clear ideas about what it wants to do. This is particularly unfortunate, as whether or not such restructuring and contraction as needs to be done in these sectors is carried out in an orderly way may be very important in determining how far the market retains its confidence in Spain.

Particularly if this sharper than anticipated credit squeeze continues, then, the progressive deterioration of the payments position of Spanish industry may cause the market to look more sceptically at Spain. The irony, however, is such a sharp contraction may — provided wages remain firmly under control—be the best thing for the Spanish economy in the long term.

The longer the credit squeeze has to be maintained, the more likely is it that political outcry about its effects will make it untenable. The longer that stabilisation has to continue, the more difficult it becomes to maintain the current consensus between Government and opposition over economic policy.

A shorter and sharper shock, damaging as it is to the economy in the short term, may be a better guarantee of its long-term prospects of recovery and growth. It is belief in these, which is the basic justification of much of the medium and longer term lending to Spain.

Francis Ghiles and David Habakkuk

Turkey

A spot of trouble n getting he sums ight

F IS a sad reflection of the emirel coalition's management f the Turkish economy that ven at the end of January, one onth after taking office, embers of the new Turkish overnment were still trying to nd out just how much Turkey wed its creditors.

The figures published in the revious Government's intro- uction to the 1978 budget have roved to be inaccurate. Only ow have officials at the entral Bank and Ministry of inance managed to put to- ether some improved but still rovisional figures. According o these, Turkey had a debt of 9.4bn. at the end of 1977, of hich no less than two-fifths epresents arrears or liabilities epayable this year.

These figures exclude interest n a way strongly justified by urkish officials — though uestioned abroad—they also xclude the $510m. due in kind nder various clearing agree- ents as well as the close on 2bn. due under the convertible ira deposit (CLD) scheme. If all these are taken in, then Turkey's total debt and interest reaches $14.5bn.

As for evaluating a debt service ratio, one official says that at present this would be a "meaningless exercise"—a comment which reflects not only the inadequacy of the information available but also the structure of the debt. Past due obligations of various sorts total $1.9bn., while there is a further $1bn. in the payments queue representing funds lodged by importers with the Central Bank and awaiting transfer abroad.

If this is the 1977 debt still to be paid, this year $225m. of interest has to be paid, while a further $1.26bn. of liabilities are falling due. Apart from this, over $1bn. are due under the CLD scheme, though in practice this amount will be largely rolled over.

Regular

Only for the following years is there anything like a regular pattern of repayments and interest, though experts now working on the figures warn that present data is misleading and stress that in any case Turkey has a tradition of refinancing its debts.

The problem facing the foreign finance institutions dealing with Turkey has long been twofold. On the one hand there was a rudderless economy, running an increasingly massive trade deficit—$4bn. in 1977—and a cost of living rising by over 40 per cent. on the other, Turkey's total debt, though relatively low by international standards, was of the worst structure possible, with a huge wall of short-term debt blocking the view to the relatively smoother repayment schedules ahead.

The banks lending to Turkey were relieved last year when the International Monetary Fund insisted on a monetary clamp-down on the reduction of the budget deficit through increases in the prices of State-produced goods, and on devaluation. The Demirel coalition took the more politically costly of those steps in the autumn but failed either to round the package off with a full devaluation or to convince the IMF that its plans for 1978 were reasonable.

Now the new Ecevit Government has largely accepted the IMF's demands so far as the import regime and limiting the budget are concerned, but has so far avoided devaluation or the introduction of the creeping peg system urged by some academics.

The Government's hope is to slash the current account deficit by cutting imports back from $5.8bn. to $4.85bn., by increasing exports, in particular of grain and cotton, from $1.75bn to at least $2.4bn., and increasing workers' remittances from $1bn. last year to $1.3bn. this year.

At present the remittances are being largely side-tracked into the parallel market financing system, which has meant Turkish importers have continued importing even when they can no longer make the transfers from Turkey on which their suppliers have been insisting. However, the new Government hopes that the workers will respond to the various measures they propose, and in particular to the changed political climate in Turkey.

The State Planning Organisation expects the current account deficit to be halved to $1.4bn., though TUSIAD, the Turkish industrialists' and businessmen's association, forecasts that it could still be $1.9bn.

Between 1973 and 1976 GNP grew at an average of 6.9 per cent. per year in real terms. In 1977 growth seems to have been cut back to 5 per cent. and this year, with factories working as low as 50 per cent. of capacity, growth is likely to be relatively low again. This is a particularly grave problem in a country where even the high expansion of recent years has not prevented the emergence of unemployment as a serious structural problem.

As the economy moves out of a trough of mismanagement foreign banks are beginning to hint that they might be prepared to make fresh advances to Turkey even in the absence of a sizeable agreement between Turkey and the IMF.

CONTINUED ON NEXT PAGE

TURKEY'S DEBT STRUCTURE
($m. end 1977)

	Total	Arrears	1978	Maturity Medium	Long
International Monetary Fund	550			550	
Other Intl. Organisations	1,205.2				1,250.3
of which:—					
IBRD (a) 442.6					
IFC 122.2					
IDA 178.3					
EIB (b) 375.6					
ERF 86.6					
Foreign Govt. Loans	2,500			2,500	
of which:—					
U.S. 1,175.9					
W. Germny 534					
Britain 71.1					
Private Foreign Credits (c)	620			620	
Euromarket Lns (d)	530			530	
Commercial Credits (e)	5.2			5.2	
Commercial credits under budget law (f)	120			120	
Central bank managed credits					
1. Bankers' acceptances	700		700		
2. Bankers' credits and placements	400		400		
3. Overdrafts	110	110			
4. B.I.S.	90		90		
5. Pre-export financing (g)	70		70		
6. Cash against goods (h)	1,500	1,500			
7. Letter of credit applications	1,000	1,000			
Total	9,400.5	2,610	1,260	4,325.2	1,205.2
Interest	2,500		225	1,250	1,025
Dresdner scheme (k)	130			130	
Clearing agreements (j)	510		510		
Convertible T. lira deposits (d)	1,962	300	1,050	612	
Grand total	14,502	2,910	2,535	6,827.2	2,230.3

Note: Sources for all items in first column and for 1978 interest liabilities are central bank and Ministry of Finance preliminary revised figures. The allocation of debt between the different maturities is indicative only. Figures exclude debts in Turkish lira, amounting to T.lira 3,614.7 (excluding interest) or the equivalent of 188m. at 30.9.77. Officials say the figures for other international organisations, and for loans from the U.S., W. Germany and Britain have not changed since 30.9.77: Figures cited above for these are from 1978 budget introduction.
(a) Excluding $610.9m. credit unused following delays in initial payments.
(b) Excluding $58.6m. credit pending requisite ratification by Turkish Parliament.
(c) Minimum.
(d) Of which $175m. for Botas pipeline, $150m. for State Investment Bank and $150m. for Petrol of Isi.
(e) Under 1959 Paris agreement.
(f) Mainly to State economic enterprises.
(g) Mainly by Deutscher bank for wheat.
(h) Part of this has already been met by Turkish businessmen from funds they held abroad so liability is in part in practice to Turks.
(i) Emigrants' workers funds made available to central bank.
(j) Payable in kind, with $200m. due to Russia.
(k) See text.

North Africa

Pattern shifts in Maghreb borrowing

THE THREE Maghreb countries continued as active medium-term borrowers in the Euromarkets in the past 12 months but while the total amount they raised increased if compared with 1976, there was a marked shift in the pattern of activity.

The market's oldest customer, Algeria, emerged from a rather rough period in the market and ended up by borrowing less than during the previous year. It was very slow to benefit from the shaving of spreads and lengthening of maturities which characterised the market; by last month it finally had, despite the fact that the terms on the $35m. loan to Sonatrach, the State oil company, which is being arranged by Marine Midland (a maturity of ten years on a spread of 1¾ for ten years) were finer than they would have been had there not been a link with export credits, in this case from Italy. Banks usually get a higher return on financing linked with export credits, so they feel they can afford to be more generous on the medium-term portion of the credit.

Morocco's State phosphate company OCP went for a similar kind of mix on a $200m. credit last September. This allowed OCP to achieve a spread of ⅝ per cent. on the $50m. medium-term portion of this financing, only $35m. of which was effectively syndicated. With its balance of payment situation worsening and the price of phosphates staying low, Morocco increased its borrowing activity last year and will no doubt want to raise as much this year as last—that is over $1bn.

Unhappy

OCP raised a loan on this market for the first time last year, not an easy operation as many banks were unhappy with the fact that no European firm had audited the company's accounts, only Inspecteurs des Finances from the Ministry of Finance in Rabat. Morocco was able to borrow on finer terms later in the year, the split spread of 1½-1¼ per cent. on the $325m. loan to the Kingdom marking a definite improvement on the 1¾ per cent. spread achieved by OCP in February 1977. Despite the economic and financial problems the country faces, Moroccan borrowers will remain attractive to many banks on account of the country's low indebtedness.

Tunisia was without doubt the success story of the year so far as Maghreb borrowers were concerned. Its maiden voyage in the market enabled it to raise $125m. for seven years on a spread of 1½ per cent. throughout. The management fee of ⅜ per cent. was low by market standards. Apart from this sovereign loan, two other Tunisian State agencies raised smaller sums of money, the Central Bank's policy being to establish the name of one of two State-owned companies in the market in their own right.

Tunisia will be active in the market this year; the ambitious Five-Year Plan launched last year allows for much greater recourse to borrowing abroad from private sources. The authorities will be tempted to raise funds earlier than needed if the present borrowers' market persists. Whatever economic and political difficulties Tunisia faces, it should encounter no difficulty in raising loans. A reasonable track record in the economic field, low indebtedness and up-to-date information on its economic and financial affairs should ensure a good reception in the market.

This year might well see Algeria return to its position as the Maghreb's most important borrower. When its major gas liquefaction plant is opened in Arzew in a few weeks' time, many bankers will breathe a sigh of relief. This project is two years behind schedule, not an unusual delay by developing country standards but one which allied with Algerian secretiveness until recently on economic and financial data has not made life easy for the banks.

The new rules being worked out by the U.S. authorities are likely to cause headaches for the banks where Algeria is concerned. In particular rule No. 1 which says that the borrowing entity must have resources or income of its own sufficient over time to service its debt obligations.

It is open to question whether a company such as Sonatrach will ever wish to disclose enough information to satisfy the U.S. authorities. If it does not, even those banks which have full confidence in the way the Algerians are developing their oil and gas might find they have severe constraints on their lending limits.

F.G.

Sudan

Probable increase in future loans

AT THE beginning of December a senior Sudanese minister stated publicly that Sudan was not proposing a collective rescheduling of its debts. But Mr. Mohammed Hashim Awad, Minister for Co-operation, admitted that his Government had been in touch with some of its creditors asking them to wait for payment while it negotiated. "There have been one or two contacts with Arab countries to reschedule debts, specific loans, but we have not sought any collective rescheduling," he said.

Sudan's foreign debt stands at about $1.8bn., of which about $250m. is short-term. Euromarket borrowing. Debt service obligations amount to more than 40 per cent. of net export and invisible earnings. A balance of payments current account deficit of $574m. is unofficially foreseen for the current financial year (whic hends in June). A net capital inflow makes the deficit on current and capital account a rather better $407m., according to the projections.

The critical situation, which has led to delays in paying for imports and in making loan service payments (not nearly as great as the more lurid stories suggest), is the ironic result of a flood of funds into Sudan since the 1973/4 oil price rise. Serious efforts are at last being made to exploit a far greater chunk of Sudan's agricultural potential than before and Arab and—to a lesser extent—Western investment and aid has poured in. Longer term plans drawn up by the Arab Fund for Economic and Social Development envisage Sudan becoming a major food exporter to the rest of the Arab world, with its development carefully controlled and partly financed by the already established Arab Authority for Agricultural Investment and Development (usually known as the triple-A-I-D).

The trouble is that development in the past four years has gone more slowly than had been expected and few new foreign exchange earning or saving projects have yet made a significant impression on the balance of payments. The very weak transport infrastructure has caused terrible bottlenecks, while little has been done to adapt the pervasive but sleepy Sudanese bureaucracy to the need for more dynamic management of the economy. But the Government is determined to press on with development with all that this implies in terms of soaring imports and invisible payments, trusting that the oil-producing countries of the Arabian peninsular will meet the short-term deficit.

Saudi Arabia, Sudan's principal financial backer, has shown itself reluctant to bail out its neighbour across the Red Sea except on conditions that are considered in Khartoum to be tough. In co-ordination with the IMF, which has been expressing its concern about the Sudanese financial position (reserves were recently, only $18m.), Saudi Arabia would like Sudan to introduce a package of economic measures.

Devaluation

These are thought to include some form of devaluation of the Sudanese pound (possibly by the creation of more incentive rates for different categories of transaction), a cut in the budget deficit, reduction in the losses made by public sector corporations and an improvement in the tax system and tax collection methods to give both greater incentives to investors and more revenue to the government. In return Sudan would get Saudi and IMF short-term credits. Unless this happens the Euromarket's appetite for more loans to Sudan will be small.

Government Ministers appear to consider that these conditions would be politically dangerous, since they would increase short-term inflation while postponing the moment of economic breakthrough and the first real rewards for the bulk of the population. The Government appears to prefer to extend the terms on what loans it can, mainly those with Arab backing (a $200m. Eurodollar loan backed by the Saudi Arabian Monetary Agency has been extended by five years). It also wants discreetly to cut back on spending and to switch the emphasis in development to less costly projects with a quicker return. It has sold this year's current cotton crop forward for about $400m. (and already spent the money to meet commitments, according to Sudanese bankers).

Fortunately, the transport bottlenecks are gradually being broken. An oil pipeline to take the strain off the railway from Port Sudan to the capital has just come into operation, and a hard surface road linking the two should be complete within a year or so. The Rahad irrigation scheme is starting to produce crops this year.

But the need for borrowing will increase as development grows and more projects are implemented. The intention of the Arab Fund is that Sudan's development should be controlled, in agreement with the Sudan Government, by the AAAID, which will be able to give special tax and other concessions to projects with its imprimatur and will keep a check on borrowing while providing an institution funded and supported by the majority of Arab governments. But the AAAID cannot operate effectively until a chief executive has been appointed—something which has been delayed by an inter-Arab dispute.

When it does start operating it should be able to guarantee much of Sudan's future long term borrowing. But until the immediate crisis is resolved it is uncertain where Sudan will turn for its short-term balance of payments needs, which may run at about $200m. a year.

James Buxton

Nigeria

First recourse to market facilities

LAST MONTH Nigeria, the most populous country in Africa, signed a $1bn. syndicated Euromarket loan. It was the first time that the Federal Government had come to the market, and it marked the first step in a programme under which Nigeria aims to raise $5.5bn. from various sources over the next two years to help finance its current development plan. This envisages public sector spending of $41.34bn. over a five-year period ending in 1980.

With foreign currency reserves standing at $4.6bn. last August and proven reserves of mainly light low-sulphur crude put at 20bn. barrels (equal to 25 years' output at current rates) Nigeria was able to command a spread of only 1 per cent. above LIBOR on the seven-year facility.

At the same time as the loan was signed (it is co-led by Chase Manhattan Limited, Morgan Guaranty Trust and Compagnie Financiere de la Deutsche Bank) the Nigerian Government confirmed that it had obtained a commitment of $500m. per year for the next two years from the World Bank, the loans to be tied to specific projects and conditional on Nigeria putting forward sufficiently evaluated and acceptable projects.

Nigeria also expects to raise $1.5bn. in supplier credits, a further $1bn. in syndicated bank loans and $1bn. in project-related market loans.

Nigeria's external public debt outstanding at the end of 1976 was only $1.28bn., comprising a mixture of bilateral and mulitlateral loans (of which those from the World Bank and its affiliates made up nearly half). This gave an external debt service ratio (on the basis of 1976 exports) of 0.7. As the servicing of the $1bn. loan becomes heavier Nigeria expects a debt service ratio of 3.7 in 1981—the peak year—taking into account existing debt. But this figure does not cover other borrowings likely to be arranged in the next two years.

Nigeria went to the market for $1bn. because it foresaw a shortfall on its funds available for development. Recurrent expenditure exceeded original estimates (as did the cost of implementing projects in the plan), leaving a smaller surplus for investment. Oil revenue turned out to be smaller than the projections; in fact production is around 1.7m. barrels per day compared with estimates of 3m. in the plan.

The Government estimates that it can meet Naira 12.5bn. of its capital spending requirement out of revenue, leaving a balance of N.14bn. to be borrowed. Of this up to N.10.5bn. (depending on actual project implementation) can be raised locally, the Government thinks, leaving N.3.5bn. ($5.5bn.) to be raised abroad. The Government this year expects a budget deficit of about N.3bn. after recurrent spending of N.4.9bn. and development spending of N.5.8bn.

Growth

These projections could be upset by the continued rapid growth of recurrent spending (which the Government is anxiously trying to rein back) and the drop in oil revenues caused by the arrival of North Sea, Alaskan and Mexican oil in its traditional major markets, the U.S. and Britain, which could bring oil production down to 1.5m. to 1.6m. barrels per day by the end of the year, implying a 20-40 per cent. drop in revenue.

But perhaps a more serious trend is the slow rate of project implementation experienced so far as a result of bottlenecks and a complex decision-making process. There has been little sign yet of a reversal of the decline of Nigeria's traditional foreign exchange earners, the agricultural commodities, nor of food production for internal consumption. Oil still makes up 80 per cent. of revenue and more than 90 per cent. of export earnings.

It therefore appears likely that the Nigerian Government will need to borrow more heavily in the early part of the next decade when development spending is likely to be at a peak. The economy may not be cushioned by such large reserves at that point, unless there has been a sharp upturn in the world oil market and a rise in Nigeria's oil productive capacity (the Government has given incentives to the oil companies to step up exploration), and unless the two projected LNG plants have come into operation to capitalise on the other main part of Nigeria's hydrocarbon reserves, natural gas.

J.B.

Turkey

CONTINUED FROM PREVIOUS PAGE

The banks have been considering a group loan of up to $750m. with attached to this the demand that Turkey should discourage further CLD. The latter system allows foreign banks to lend to Turkish banks with all the foreign exchange risk guaranteed by the Turkish Central Bank, it has meant that Turks have been borrowing at the low Swiss or West German interest rates and lending locally at between 14 and 17 per cent., with the Central Bank taking all the entrepreneurial risk inherent in the interest rate differential.

The loans have been mainly short-term and are described by the present Minister of Finance, Mr. Ziya Muezzinoglu, as the worst form of borrowing imaginable. They have become bread and butter for Turkish bankers who insist that they are long-term debts since in practice they are rolled over. But by more rigorous standards they are a short-term obligation.

The Central Bank says that of close on $2bn. CLDs outstanding at the end of 1977, $300m. are past due obligations, $1.05bn. are due in 1978, $245m. due in 1979, $90m. due in 1980 and $25m. due in 1981. These figures exclude CLDs made openly by Turks, many of which are on a call basis but are not in practice withdrawable.

Rescheduling these CLDs has become almost essential if Turkey is to raise fresh loans on the scale needed. The short-term outlook for the economy is daunting, with 1978 exports forecast only just to exceed a half of the debts repayable this year, let alone the expected current account deficit.

But with its rich agricultural potential and growing industrial base the future is not entirely bleak. Turkey's 600,000 emigrant workers hold an estimated $3-6bn. in banks abroad, while Turkey's industrialists have been proving that they too have assets abroad by financing many of the imports still awaiting official payment transfers. "The Turkish businessman is like the Italian one in having huge deposits in Switzerland," one official says, adding wistfully, "if only an amnesty for capital exporters would boost the Turkish lira as much as it helped the Italian one."

David Tonge

EUROMARKETS XV

Latin America

No better customer over the years

THE EUROMARKETS have no better customer than the Latin Americans. Before, during and after the oil crisis they came to the market and they were seldom turned away by bankers who were smarting from the lack of sustained demand for credit from the industrialised world.

The fact that in 1976 Argentina stumbled under the weight of the money it had borrowed and all but defaulted for a time on its debt service did not appear to worry the lenders in the long term. Neither did the fact that a poor price for copper and a dearth of fish for the fishmeal industry were compounding Peru's payments problems. Nor did the fact that Brazil's foreign obligations were inexorably mounting towards the present dizzy figure of $30bn. Lenders came forward for Chile and its military junta and Jamaica and its hard-pressed social democratic government.

In few cases was the borrower's capacity to repay questioned. The careless rapture exhibited by the lenders could be argued to have been soundly based.

At a time of stagnation elsewhere the growth rate of the area was a good one, going from 3.2 per cent. in 1975 to 4.4 per cent. in 1976 and 5.2 per cent. last year. At the same time the inflationary pressures which the continent had suffered since the early 1970s abated a little. Despite higher growth rates the area's ability to export did not seem much affected and last year Latin America threw up a balance of trade surplus of nearly $1bn. compared with a deficit of $3.5bn. in 1976. The current account deficit dropped from $10.1bn. to $7.6bn. and the region's reserves rose by $2bn.

The record was not a bad one compared with the highly disappointing results achieved by many countries of the industrialised world. It demonstrated that the Latin Americans were in general able to support a big debt burden because they were earning their way in the world and the restrictions on their exports to the industrialised countries were not such as to affect their international trade to any great extent.

Lenders could also take comfort from the fact that the burden of debt was so large that they could be confident that the whole financial expertise of the lending countries would be put to work if there was any possibility of a major borrower defaulting, and thus putting into jeopardy the banking structures of the West.

So it was, for instance, that Latin Americans were able to appropriate the biggest slice of the Euromarket lending done with the developing countries.

In the second quarter of last year the developing countries were responsible for publicised borrowings of $3.4bn., or 52 per cent. of all the borrowing done. Of this total $505m. went to Brazil, $242m. to Argentina, $186m. to Mexico and $100m. to Panama.

But while the overall Latin American picture is one of growth and continuing confidence, conditions vary greatly from country to country. The whole picture is to no small extent distorted by the great weight of Venezuela's very big oil revenues and its consequent financial strength.

With reserves of around $9bn. the Venezuelans have billions more dollars than any other Latin American country—their nearest rival being Brazil, which has less than $6bn. but a population ten times that of Venezuela. If one were to subtract Venezuela's financial strength from the region it would look decidedly shakier.

In the Euromarkets the Venezuelan Government has been doing the most prudent thing—namely, borrowing when it hardly needs the money. The reasoning is that having established itself as an exemplary borrower in easy times it should find it all the simpler to borrow should it ever be financially embarrassed. The Venezuela record is discussed at greater length elsewhere in this survey. Suffice it here to say that the country provides some gilt on a piece of Latin American gingerbread which at times tends to crumble at the edges.

The situation of Peru is particularly intricate. The collapse in the prices of some of its main export lines, the disappointing performance of its fisheries and the bunching of its debt repayments into a short period has produced very severe problems of cash flow. The measures that the International Monetary Fund (IMF) suggested would correct the situation have proved politically unpopular and have been hotly debated within the country. This debate has come about at a particularly sensitive moment for the Government of General Francisco Morales Bermudez, who is trying to turn the country back to civilian rule after nearly a decade of military administration.

Graveyard

Peru has also proved to be the graveyard of an experiment, novel for these times, under which private foreign banks took over the monitoring of Peru's financial policies. Uncertainty about the IMF conditions for making credits available to Peru and even greater uncertainty about the extent to which they would be accepted and carried out have affected Peru's relations with lenders in the Euromarkets.

Nevertheless, the fact that the Fund has decided to disburse money to the Morales Government should calm fears about the future and persuade lenders that the only viable policy for all concerned is to roll over Peru's more pressing liabilities. It is clearly unrealistic that nearly half of all Peru's export earnings should be channelled to debt servicing, as they are at the moment.

Chile's financial relations with the Euromarkets have improved after the decision of General Augusto Pinochet that the country would not seek any refinancing of its foreign debt in 1977 or 1978. Despite this improvement lenders are still shy of giving publicity to loans to Chile which continue to attract political criticism. But the strong support that the Pinochet Government has received from international financial institutions like the Fund, the World Bank, the Inter-American Development Bank and—at least until the advent of President Carter—the U.S. Administration itself has been a great comfort to lenders.

The debt service burden is nevertheless a heavy one which will absorb nearly 40 per cent. of Chile's foreign exchange earnings this year.

The way Brazil has constructed its towering foreign debt and has continued to keep it erect despite the winds of doubt about the country's creditworthiness is something that commands continuing admiration. More than any other Latin American country Brazil depends on keeping foreign markets open for its exports and on being allowed to earn the money to keep servicing its debt and borrow more. This it has been able to do at the same time as it has tackled the problem of finding more oil at home and so cutting down the biggest item in its import bill. Last year it demonstrated its continued hold over the imaginations of the banking world by obtaining the largest ever project loan—more than $500m. for the Acominas steelworks.

Argentina is possibly the most problematical of the big borrowers. The stability of the government, or at least of the present economic policies being pursued by Sr. Jose Alfredo Martinez de Hoz, are constantly being called into question. As the pace of inflation quickens voices are yet again heard calling into question the viability of such policies, and Argentina's standing as a reliable borrower.

Hugh O'Shaughnessy

Mexico

Oil wealth offsets drawbacks of economic crisis

MEXICO VIES with Brazil as the largest foreign borrower among developing nations but there is one big difference between them that does not go unnoticed by their creditors; Mexico has oil—lots of it—and Brazil does not. As a result, although Mexico is going through its worst economic crisis in 40 years and is having to abide by the strictures of the International Monetary Fund, private bankers are literally queueing up to lend in Mexico City.

Oil is of course not the only reason to lend to a country whose foreign debt is already equal to almost half its Gross National Product. During the 14 months since President Jose Lopez Portillo took office, the Government has adopted a daring austerity programme that has helped rebuild confidence in the economy after the chaotic final months of 1976 when the Mexican peso was devalued for the first time in 22 years. Since then the "floating" peso has stabilised around 23 pesos to the dollar (compared to 12.50 pesos before August 31, 1976), the current account payments deficit has fallen by 40 per cent. to $1.6bn. and inflation has slowed to about 12 per cent. per annum.

But oil made the difference. Just as foreign bankers were beginning to worry about Mexico's prospects early last year, the true scale of Mexico's oil wealth became apparent. During the previous administration of President Luis Echeverria it was Government policy to be secretive about the country's oil reserves. But when Sr. Lopez Portillo took office, the State oil monopoly, Pemex, immediately raised its reserve estimate from 6bn. to 11bn. barrels and now claims 16.8bn. barrels of proven reserves, 30bn. barrels of "probable" reserves, and 120bn. barrels of "potential" reserves.

Even more important, the new Government decided to get this oil out of the ground as fast as possible — without allowing foreign oil companies in to lend a hand. Production is now 1.2m. b/d, of which 200,000 are being exported. By 1982 production could be as high as 2.5m. b/d, with more than 1m. b/d exported. At current prices this means annual foreign oil revenues of $5bn., plus future earnings from natural gas exports.

But Pemex's ambitious six-year investment programme — currently estimated to cost $17.5bn. —also requires enormous foreign credit. Last year, this year, and for the foreseeable future, Pemex will therefore be the largest single Mexican borrower. But for oil no one minds lending.

Mexico's real problem now is to find money for social development. Under President Echeverria its public foreign debt quadrupled to $19bn. as bankers financed growing budget and payments deficits, unproductive social projects and inflationary wage increases. But after the public foreign debt jumped by $5.5bn. in 1976 alone, the IMF stepped in, and in exchange for $1.2bn. of extended Fund facilities imposed a net foreign borrowing limit of $3bn. for 1977.

Last year Pemex was not affected by the limit but this year the same ceiling applies—*including* Pemex. The public debt will reach $25bn. by the end of 1978 but there will be little extra money available for health, education and other social services. The rule now is that foreign credit must go to productive operations and not to finance budget and payments deficits.

But despite the attraction of lending to Mexico the IMF's ceiling is not the only limit. With three-quarters of Mexico's public debt owed to American banks, the U.S. Comptroller of the currency has begun tightening his rules on foreign lending by the banks he monitors. In future these banks cannot lend more than 10 per cent. to any single foreign client, a measure certain to affect Mexico.

Concept

The key to the Comptroller's decision will be how he interprets the concept "client" since numerous different Mexican Government agencies have traditionally gone to the markets separately. Now, a "means and purpose" test will be applied to determine whether an agency's borrowing should be considered part of the Federal Government's total limit or be treated individually. Pemex will clearly be seen as a separate "client," but some other large agencies, such as the basic food corporation, Conasupo, may not be. In that case the Federal Government may find it has already reached its ceiling with some large American banks.

Anticipating this, the Lopez Portillo administration has therefore begun developing new credit markets, particularly in Western Europe, Japan and the Middle East. Significantly, in 1977 over 60 per cent. of Mexico's public borrowing took place *outside* the U.S., a trend certain to be followed this year.

Mexico's private foreign debt, currently estimated at about $9bn., has been growing much more slowly than the public debt over the past decade and since devaluation has hardly grown at all. Several large Mexican companies were caught with huge dollar liabilities in August 1976 and some, notably the Fundidora de Monterrey Steel Company, have been forced to renegotiate their debts. With domestic demand sharply down, foreign banks have naturally been less than enthusiastic about lending privately in Mexico for the past 18 months.

Anxious to stimulate investment but with domestic credit also tight, the Government now has a "back-to-back" mechanism by which dollars borrowed privately abroad can be deposited with the Bank of Mexico and exchanged for pesos, with the Government carrying the devaluation risk. In the past five months about $500m. have entered the country this way and have been channelled towards plant expansions or new investment. The principal beneficiaries, however, have been the local subsidiaries of multinational corporations. But once the recession is over, supposedly late next year, direct private borrowing abroad should resume.

This time, though, there will be no gambling against a possible devaluation. The Lopez Portillo administration is determined to keep the peso floating relatively cleanly. The fact that the currency has stabilised without the imposition of exchange controls is evidence that the strategy is working well.

Alan Riding

Venezuela

Free-spending policy adds growing burden of debt

"YOU REALLY have to give the Venezuelans credit. Not only have they managed to spend everything they've earned since 1974, but they've got into debt besides."

This comment by a foreign correspondent who has covered Latin America for many years captures the scepticism expressed by some observers over the Venezuelan Government's grandiose spending programmes and the concurrent borrowing which has pushed total official debt—and external obligations—to unprecedented levels.

Since 1974, when higher OPEC prices trebled Venezuela's oil revenues, the democratically elected Government headed by President Carlos Andres Perez has begun to implement a wide range of industrial and social improvement projects calling for spending which outstrips the country's already spectacular income levels.

While some domestic and foreign observers have questioned the wisdom of undertaking a highly ambitious development scheme with admittedly limited human resources available, most bankers here are satisfied that the Government knows what it is doing and has the financial and oil reserves to back it up.

Over the past year and a half the Government has turned to foreign credits as never before in order to finance part of its on-going projects in steel, aluminium, hydro-electric power, transportation and physical infrastructure, and to refinance certain short-term debt. The Government's external debt, which averaged around $1.68bn for the years 1972/1974, rose to $2.05bn. in 1975, to $3.5bn. the following year and to $4.77bn. in 1977.

Total Government indebtedness, which reached a record high of $8.05bn. at the close of 1977, should reach more than $10bn. this year, according to Finance Minister Luis Jose Silva Luongo. A major portion of this increase will be in foreign debt, although the precise amount is not yet known.

When the Government revealed its Fifth National Plan for economic and social development in 1976, the scheme originally called for external financing (through loans and buyers' credits) of around $4.5bn. from 1976-80, with additional $1bn. (equivalent) to be raised in bolivars on the domestic capital market.

Only recently, though, the Finance Minister revealed that the Government would seek an additional $1.4bn. for public works projects, thus bringing total projected foreign credit requirements during 1976-80 to around $5.9bn.

It would not be surprising, however, if the Government were to seek still more foreign capital as a result of unexpected cost overruns or unforseen declines in oil exports. (Total exports for 1974-77 averaged $10bn. a year, with the bulk derived from oil sales. Thus far this year, however, sales have been down considerably from 1977 because of the glut of oil in international markets.)

Venezuela made its first big jump into the Eurodollar market in 1976, when it secured a $1bn. credit (seven years) for refinancing part of its short-term obligations. Last year it borrowed $1.55bn. in syndicated loans ($1.2bn. for seven years and $350m. for the same period) and offered three bond issues totalling $350m. in New York and London. The Government also sold Y20bn. in Republic of Venezuela bonds in Tokyo, thus making its debut on the yen market. Despite the country's excellent credit rating the London and New York bond issues were not as successful as had been anticipated.

Industrial

Of the funds raised last year most were to be applied to industrial development programmes and public works. The $350m. was to be used for refinancing.

In January the Government contracted another $1.2bn. Eurocredit in London which will be applied to its industrial projects. The loan, made at three-quarters of 1 per cent. over LIBOR, matures in ten years and carries a four-year grace period. The managing group was headed by Manufacturers Hanover Trust, Swiss Bank Corporation and Dai-Ichi Kangyo Bank.

Adding this credit to the others already made for the purpose of funding its industrial and public works programmes gives a total of around $2.83bn. borrowed thus far out of the $5.9bn. in projected foreign credits needed up to 1980. Under current borrowing plans the Government will therefore need some $3.07bn. in additional credits over the next three years.

Anyone analysing Venezuela's economic prospects over the next few years can identify some problem areas: lack of control over the Government's current expenditures, continued cost overruns and waste in official programmes, heavy dependence on oil as the principal source of national income and a deteriorating overall balance of payments position.

But the general outlook is still most favourable. the country's most important money earner—the nationalised oil industry—is managed by highly qualified technocrats who are investing to keep the industry modern, efficient and competitive. Exports over the past few years have remained stable at around $10bn. per annum, and the country boasts the greatest store of international financial reserves in Latin America. In addition to borrowing, the Government itself and the State-owned Venezuelan Investment Fund are contributing the lion's share of financing for major projects.

Inflation and the stabilisation of oil prices have cut back the Government's real income from oil-exports from 1974-75 levels, but the decrease has not been a major one.

The foreign credit obligations Venezuela has contracted since 1976 are spread for the most part over seven to ten years. Even after factoring in the additional $1.4bn. the Government said it would require before 1980, Venezuela's foreign debt service stays well below 15 per cent. for the greater part of the next ten years.

In a study of the Venezuelan economy made by the World Bank in 1976 economists from the institution predicted that the country would encounter balance of payments deficits over the medium term as the Government purchased large quantities of capital goods and services abroad while implementing its basic industrial projects.

The reason it had opted to compress much of the development was that costs would be much higher for the nation if capital investments were delayed even a few years.

The worst that can be said for Venezuela is that despite its good intentions and generally laudable plans, it is very inefficient and tends to be a spendthrift. Imports of expensive motor cars, liquor and other luxury goods have skyrocketed since 1974) but this is hardly unusual for a developing nation.

The most important thing to remember is that the Government—for all its flaws—is investing in the right areas—industry, agriculture, transportation, public works and social improvement. Both this administration and the next (to be elected at the end of 1978) will be committed to the tasks of reducing the country's lopsided dependence on oil and substituting domestic goods and services for those now imported.

Joseph Mann

GOLDMAN SACHS CAPABILITY: 1977–A RECORD YEAR IN SERVING INTERNATIONAL INVESTMENT BANKING CLIENTS.

A Record Year
$247,000,000
INTERNATIONAL PRIVATE PLACEMENTS IN THE U.S.

Transactions for 11 issuers (eight of them new Goldman Sachs clients), including

De Laval Separator Company,
a subsidiary of Alfa-Laval AB

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Paktank Corporation,
a subsidiary of Pakhoed Holding N.V.

SHV-North America Holding Corporation,
a subsidiary of SHV Holdings nv

TVO Power Company

A Record Year
$356,000,000
EUROBONDS AND EURO-EQUITIES

Managed or co-managed 12 issues. Served six new public offering clients.

Beecham Financiering B.V.
$30,000,000
6¾% Convertible Guaranteed Bonds 1992

Cavenham International B.V.
$50,000,000
9½% Guaranteed Bonds due 1987

Ford Motor Credit Company of Canada, Limited
Cdn. $20,000,000 8½% Notes due May 15, 1984
Cdn. $20,000,000 8¾% Notes due May 15, 1987

General Foods, Limited
Cdn. $25,000,000
8½% Notes 1984

Kao Soap Company, Ltd.
$20,000,000
6% Convertible Bonds 1992

Walter Kidde Overseas Finance N.V.
$50,000,000
8½% Guaranteed Notes due July 1, 1985

Orient Leasing (Caribbean) N.V.
$20,000,000
8¼% Guaranteed Notes due 1983

Singer International Securities Company
$50,000,000
8¾% Guaranteed Notes due April 1, 1982

Societé Nationale des Chemins de Fer Francais
$45,000,000
8½% Guaranteed Notes due 1984

Stanley Electric Co., Ltd.
6,000,000 Shares of Common Stock

Tokyu Department Store Co., Ltd.
$15,000,000
6% Convertible Bonds 1992

A Record Year
24 TRANSACTIONS IN INTERNATIONAL CURRENCIES

Assisted 24 companies in arranging long-term currency swaps or parallel loan transactions involving a wide range of currencies—dollars, sterling, cruzeiros, pesetas, kroner, and guilders.

A Record Year
$940,000,000
INTERNATIONAL PUBLIC OFFERINGS IN THE U.S.

Managed or co-managed ten issues, and added six new clients.

The British Petroleum Company Limited
13,357,000 American Depositary Shares representing
13,357,000 £1 Units of Ordinary Stock

Caisse Nationale des Autoroutes
$50,000,000
9⅛% Guaranteed Bonds due March 15, 1997

Electricité de France
$50,000,000
8½% Guaranteed *External Notes due* June 1, 1987

Inter-American Development Bank
$100,000,000
8⅝% Bonds due 2002

Ito-Yokado Co., Ltd.
$50,000,000
6% Convertible Debentures due August 31, 1992

Kingdom of Norway
$150,000,000
7⅜% Notes due February 1, 1982

Kingdom of Norway
$100,000,000
7½% Notes due June 15, 1982

Province of Saskatchewan
$125,000,000
8⅝% Debentures due 2007

Republic of Finland
$50,000,000
8¾% External Loan Bonds due 1992

Wacoal Corp.
1,200,000 American Depositary Shares representing
6,000,000 Shares of Common Stock

A Record Year
$2,000,000,000
TRADING IN INTERNATIONAL SECURITIES IN THE U.S. AND OVERSEAS

Made markets in all issues of Yankee Bonds and traded in 72 different issues of ADR's, covering European, South African, and Japanese corporations.

Continued to make major capital commitments to accommodate client interest in bankers acceptances and Japanese and European bank CD's.

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Uncommon Capability

A bid to clean up the tanker mess

By IAN HARGREAVES Shipping Correspondent

THE SHRILL voice of environmentalism and the anguished strains of financially hard pressed businessmen will rise together for the next fortnight from the Cunard Hotel in London, provoked by the unlikely subject of segregated ballast tanks for oil tankers. The meeting will take place under the auspices of the Inter-governmental Maritime Consultative Organisation, a UN agency.

The invitation for it came from President Carter himself as a result of a storm of public protest aroused by a series of shipping accidents in American coastal waters in the winter of 1976-77. On December 15, 1976 the 23-year-old Liberian-registered Argo Merchant ran aground off Nantucket, spilling 25,000 tons of oil. When the U.S. Coast Guard boarded the vessel they found corroded equipment, a faulty compass, and a ship's master dressed in a lounge suit and with his suitcase packed ready to leave the ship. This officer lost his licence as a result of the ensuing inquiry, but by the time that the hearing took place, there had been another dozen accidents. In one of them, nine lives were lost when the Sansenina exploded in port in California.

President Carter's response was to publish a wide-ranging set of proposals for altering the design of tankers, for inspection procedures, and crew training. The direct outcome of these demands is to-day's full-scale conference. Had it not been convened, the U.S. would probably have started banning from its ports all vessels not meeting its standards. One of these standards demands that all oil tankers over 20,000 deadweight tons (a minute size for tankers, which can go up to 500,000 dwt) should be obliged to sacrifice about 15 per cent. of their cargo carrying space to fit segregated ballast tanks.

Tankers need to carry sea water ballast during unladen journeys to give them stability and to keep their propellers under water. As a rule, this water is carried in the emptied oil cargo tanks. Before re-loading with oil some oily water has to be pumped out, usually into the ocean. With segregated ballast, that problem does not arise. In addition, the Americans say, the ballast tanks can be so positioned that they provide a buffer to prevent oil leaking into the sea in the event of a collision or grounding.

Way out

But in the year since the incident of the Argo Merchant and the Carter package two things have happened. The oil companies which own 20 per cent. of the world tanker fleet and charter in most of the rest, began to publicly and vigorously defend their record on oil pollution.

Next, the independent tanker owners—who charter vessels to the oil majors—came to the conclusion that after three years of desperate, rock-bottom freight rates because of over-capacity in their industry, segregated ballasts offered a way out. Thus we have the environmentalists and tanker men of Norway, Sweden and Greece on stage together this week in London. Their argument is that by insisting on compulsory segregated ballast the capacity of all vessels afloat could be cut by between 15 and 18 per cent., thus removing at a blow about 60m. tons of the world's tanker capacity. With around 33m. tons of tankers laid up because of lack of work and a further 35m. tons of spare capacity in operational ships, segregated ballast would almost close the gap. In fact, it might close the gap completely because some older vessels would not be worth the conversion cost, which averages out at around $800,000 per vessel, and then would be scrapped.

If this happened, the market would be in balance for the first time since 1973 and very large crude carrier spot rates would rise from their present worldscale 20, at which tanker owners are not even covering operating costs. This would head off the threat of further large-scale collapses in the industry, which in Norway is only being propped with Government finance. At the end of last year difficulties spread to the mighty Japan Line, which announced that it had asked for a rescheduling of some bank debts.

The cost of the whole segregated ballast operation is put, by the Organisation for Economic Co-operation and Development at $4bn. to $6bn., and Britain says its own fleet would be faced with capital charges of £150m. in addition to a further loss of £150m. a year because of the reduced carrying capacity.

The cost would have to be borne by Governments in subsidy, or by consumers via a 2 per cent. increase of the price of oil products. At least, that is so unless the arguments of some independent tanker owners are to be believed — that segregated ballast would be paid for by help from banks overjoyed at spending money to bring relief to a group of clients who have caused them nothing but worry since 1974. Some independents even question the estimates of what ballast conversion would cost. Salen of Sweden for example says it has just converted a 96,000 ton vessel for a mere $20,000.

At the outset of the London conference, it seems certain that the segregated ballast lobby will be in a minority, possibly by as much as one to two. This reflects both the force of the opposing case and the success of the immense diplomatic effort which countries like Britain have put into winning support from Governments that have no passionate interest in the question one way or another. It is of special note that most of the Arab oil producing States now appear unlikely to join the American camp.

Britain argues that almost the same environmental gains can be made by applying two existing anti-pollution techniques already widely practised by the major oil companies. The older of these is known as "load on top," whereby tanker crews, instead of simply pumping out in mid-ocean several hundred tons of crude oil mixed with water from a ballast tank, allow the oil residue to settle on top of the water and return it to the oil cargo. About 80 per cent. of the world's tankers now operate LOT and are estimated to put 0.31m. tons of oil into the sea each year, compared with the 0.77m. tons discharged by the remaining minority.

In addition, virtually all the crude carriers over 150,000 tons in the big oil company fleets use an additional device known as crude oil washing. This involves cleaning out a dirty tank with high pressure oil sprays in an atmosphere made safe by the presence of inert gas before going into the load on top procedure. Tanker men say that after an oil hold has been cleaned with COW, the affectionate name for the system, you can walk in the tank without soiling the leather uppers of your shoes.

"It is fear of the U.S. issuing a declaration unilaterally banning tankers with unsegregated tanks from their waters, throwing world oil trade into regulative chaos, which will most worry the diplomats during the coming two weeks."

So we have the British LOT and COW versus the American-Scandinavian SBT. The outcome, unless the Americans take an uncompromising line, will almost certainly be a hybrid of the three. It is, incidentally, fear of the Americans issuing a declaration unilaterally banning tankers with unsegregated tanks from their waters, throwing world oil trade into regulative chaos, which will most worry the diplomats during the coming two weeks. No one wants such a thing to occur.

Both sides, naturally, claim to have arrived objectively at their positions, but that is not to say that there is no room for bargaining. We can expect in the days of committee work which will precede the plenary conference sessions of next week some trading, with the British almost certainly willing to consider compulsory pollution prevention measures (either COW or SBT) not only for the big vessels, but for those between 20,000 dwt and 70,000 dwt. At present, the British package says nothing about tankers in this class—a position designed simply to enrage the Americans, whose lack of deep water ports makes them heavily dependent on vessels of this size.

Meanwhile, of course, the American public without whose pressure this conference would not be taking place, will probably be bored by the technicality of it all. The environmentalists may be useful to the independent tanker owners, but the converse does not hold.

The U.S. team not only needs a deal which will prevent the oceans being polluted with oil, it needs one which will convince the American public that it has achieved something. This is the point where the oil industry reminds you that of the 6m. tons or so of oil released into the seas each year, only 200,000 tons is a result of accidents to tankers. Indeed, only 2m. tons derives from marine transport at all.

Statistically, the argument is beyond reproach, but it does omit the fact that there can be devastating consequences for the marine life and coastline of a particular area as a result of a tanker accident. The collision of the American supertankers Venoil and Venpet off the coast of South Africa in December, serves as a reminder that such statistics could be doubled overnight. Had one of the ships broken up, as seemed likely at one point, 250,000 tons of oil would have been floating around. SBTs, COWs and LOTs have little relevance to that kind of accident, which in 85 per cent. of all cases is associated with human error.

That brings us to the nub of a subject which fails sufficiently to interest a significant minority of shipowners and Governments. A second IMCO conference in the summer will attempt to draw up the first proper international agreement on some of these matters, but the insistence on and supervision of certification and training by some of the flag of convenience States especially is less than adequate, to put it mildly. Stories of crews who don't know how to work fire appliances, and lifeboats that cannot be lowered because of rust are still common.

When it comes to dealing with straightforward navigational hazards, there has been some improvement through moves such as the new lane separation scheme in the English Channel, but at the same time as gadgetry has become more sophisticated the appalling boredom of crewing a supertanker has created new problems.

The Americans have been no less pressing on this theme as on SBTs in the past year and a list of improvements to standards of inspection and certification regulations will be adopted by the conference without much argument this week. Likewise a British proposal to set up a flying marine safety corps to help out states lacking safety resources has wide support.

Training

There is a good deal of agreement with the Americans that tankers should have a spare radar, inert gas systems, emergency steering systems, and some kind of collision avoidance warning system—although there is a high degree of suspicion that fancy computerised hardware is not much good unless your crews are trained to deal with them.

IMCO itself has something of a navigational boredom difficulty in that it has visited the waters of the SBT controversy before. Its anti-pollution convention, adopted in 1973, said that segregated ballasts should be compulsory in all new vessels over 70,000 tons. That convention has so far been ratified only by Kenya, Jordan and Tunisia—not the greatest of tanker owners. Maritime nations say it contains requirements technically and economically beyond the power of the industry. It is at least to be hoped that the London conference will not overlook the question of what is manageable.

Letters to the Editor

Good luck to Leyland

From Mr. A. Beard.

Sir,—Everyone will wish Mr. Edwardes well in his daunting task of making British Leyland into a viable economic company. No doubt the job cuts are vitally necessary and the proposed decentralisation of the organisation will be of benefit once it has had time to settle down. Let us hope he will be given time to succeed.

Unfortunately when nationalised industries do not prosper the politicians responsible for them seem to assume that what they need is the industrial equivalent of a general election; a change of organisation; new objectives; a fresh coat of paint. They could not be more wrong. What industry, nationalised or otherwise, needs almost above all is long-term stability to enable it to plan ahead. This, unfortunately, has eluded poor British Leyland.

Only a short time ago the company was having considerable trouble trying to centralise its wage bargaining to eliminate labour troubles and improve productivity, while simultaneously another nationalised industry, the National Coal Board, was doing the opposite in order to achieve the same objective.

Whether an organisation is centralised or decentralised is really only a matter of management style. Both systems can work perfectly well; the existence of successful companies throughout the world using either system is evidence of this. But the two systems do not mix. Managers accustomed to working in one environment may find it difficult, even impossible, to adapt to the other. Change from one system to the other, therefore, creates a hiatus which may take months, even years, to settle down and begin to show benefits, which is why it is necessary that Mr. Edwardes should be given some years to demonstrate that his system can and will work.

What many of us in industry dread is the next general election. For if we have a change of Government there will almost certainly be changes of organisation for some of our ailing nationalised industries, so setting back any expectation of recovery for another three or four years.

In a recent letter to the Press Sir Anthony Bowlby and others have suggested that our difficulties in the field of industrial relations stem from the two party political system, and propose that an electoral system based on proportional representation would be beneficial. One cannot help wondering if proportional representation might not be just as beneficial to our nationalised industries for the same reasons.

A. L. Beard,
Woodfield,
Sparken Hill,
Worksop, Notts.

Equality in pensions

From Mr. A. Furse.

Sir,—The Sun Alliance and London should have little difficulty in persuading the Government that its adjustment to staff salaries and pension contributions is after all within the Government guide lines if it insists that they be related to true actuarial cost of the indexed pensions granted to the Civil Service and other nationalised bodies over the last few years.

The Government Actuary is known to be resisting the suggestion that the salary adjustment element required for indexation of civil service pensions should be raised from 1½ per cent. to 5 per cent., when it is obvious from the figures of the past six or seven years that an adjustment of at least 30 per cent. would not be inappropriate for the benefits obtained.

Might I also make the slightly mischievious suggestion that the Sun Alliance and London (or perhaps some smaller subsidiary with a limited capital) submits proposals for an index-linked pension policy to the Government Actuary in which the indexation cost is to be met by a guarantee fund of 1½ per cent. of salary—or even the 5 per cent. suggested by Mr. Geoffrey Heywood to the Select Committee.

In his capacity as the guardian of insurance company solvency he is bound presumably to comment and it will be interesting to have some such observations available which can be considered by the new Pay Research Unit—and eventually by the Select Committee.

Anthony Furse.
Nerquis, Mold, Clwyd.

Need for a new contract

From Mr. J. English.

Sir,—Your correspondent Mr. T. A. E. Layborn observes (February 2): "In these inflationary times, some sort of index-linking is essential."

Desirable, no doubt, but "essential," no. No private-sector scheme dare go for full index-linking. No insurance company with a hope of staying solvent will write such a scheme save where the employer has an open-ended commitment which it could not responsibly undertake.

"Index-linking" was introduced in the public sector (which alone has a bottomless pocket, that of the unhappy taxpayer) when inflation was running at near-tolerable limits, long before the horrific 24.9 per cent. of 1975.

Surely the time has come where the Government must say "we will honour our obligations to those already with us, on the terms then offered—but all new recruits from now on must face pensions based upon a proper commercial appreciation as they would get in the private sector."

Grade-for-grade, the new recruits would be offered higher immediate salaries to compensate them for non-indexed pensions: whereas those already employed could be given the option of switching to the new higher immediate salary if they gave up their index-linked pension rights, should they so wish. They could have no grouse, should they not switch, about "being paid less than their colleagues," because their future pie, so far from being in the sky, would be very real.

There seems to be a fatalistic resignation to the fact that since public sector pensions are presently index-linked, the country is saddled with the system for ever. I would not for one moment suggest that the Government should renege on existing contracts—but must it continue to make new ones?

Jeffrey English.
Willis Parsons English & Co.,
Sun Alliance House,
Dean Park Crescent,
Bournemouth.

TUC wrong about lawyers

From the Chairman,
British Legal Association

Sir,—If accounts of the TUC "evidence" to the Royal Commission on Legal Services are correct one must conclude that TUC research has been inadequate and has led it to wrong conclusions.

Calls for "an end to the class structure of the legal profession" are particularly silly, the profession being open to all of the right character and level of intellectual attainment, whilst the suggestion that "non-graduates should be allowed to qualify" and that "premiums (for articles) should not be permitted" show that the TUC is out of touch with reality. Non-graduates past, present and future have qualified and may qualify as solicitors, and premiums have been virtually unknown for two decades or more. My articled clerk is frequently to be heard humming "My old man's a dustman," and she claims that her grandfather was a London cabbie.

The TUC could not resist jumping on the conveyancing band waggon and its suggestion of extending lay—representation at tribunals, thus depriving parties of hope of proper professional help through extension of legal aid, shows very clearly, with the other recommendations that the TUC is concerned not to improve the standards of the legal profession and the courts but to depress them; no doubt to pave the way for its thinly disguised plan for a state controlled national legal service. With echoes of Grunwick, etc. still ringing in our ears, what price the freedom of *all* individuals then?

S. P. Best.
29 Church Road,
Tunbridge Wells, Kent.

Tax and social justice

From Mr. A. Gray.

Sir,—The publication of the Meade Report (January 26) is indeed a welcome event insofar as it sets our communal thinking in the direction of a more sensible taxation system. I fear, however, that even these proposals are less radical than necessary when talking about the establishment of social justice.

A system which maintains the use of a basic rate of tax on the lower income bracket while freeing the higher income bracket to choose how much expenditure tax is paid seems to be at least arbitrary, and at most unjust. There appears to be a built-in assumption all along the line that the individual who has no money capital cannot possibly have any entrepreneurial skill. Until such fundamental defects are eradicated from a reformed system, we cannot possibly hope to achieve social justice in practice.

One of the major problems with any taxation system is that of avoidance and these new proposals do not seem to have clearly set out any safeguards to prevent massive avoidance of tax by the wealthier members of society (once again at the expense of the lower income bracket members who will be labouring under the basic rate of deduction). Therefore, it is better to search for a specific rather than a general expenditure tax which falls upon an item that cannot be avoided by any members of society and yet which ultimately allows complete freedom of choice in action and prevents the build-up of massive fortunes through "saving and investment" in property and land.

The fears expressed by the so-called left wing journalist referred to by Mr. Brittan do not seem at all unjustified and only a tax system which used as its base individual and corporate expenditure on land, whose ultimate value depends upon the very existence of society, could begin to establish a situation where all members of society have something approaching equal opportunity.

It is time to be truly radical instead of merely paying lip service to an attractive ideal.

Adrian Gray.
31, Russell Road, Wimbledon, S.W.19.

Airport options

From Mr. R. Bonwit.

Sir,—Reading between the lines of the recent White Paper, one gets the impression that the airlines will be obliged to invest heavily in improved medium-distance aircraft during the mid-1980s—only to be faced with a severe lack of landing space after 1990. There will then be tremendous pressure for a third London airport, at a minimal cost—according to Mr. Rodgers—of £1bn. This, incidentally, is the amount which, according to Mr. Edwardes, the Government will have paid out on subsidies and grants to a less successful branch of our transport industry.

The White Paper makes it clear that a major constraint on air operations over south-east England will be the noise factor, especially for night flying. It is therefore difficult to understand why Mr. Rodgers should have recently barred the way out of intolerable air traffic congestion by declaring that the Channel Tunnel would never be built. It is precisely by the establishment of a fast inter-city rail system between London and the traffic-generating "industrial quadrangle" encompassing Paris, Brussels, Amsterdam and Düsseldorf that it would be possible to reduce demand on airport space in the Greater London area. About £1bn. spent during the next five to ten years on a tunnel and on Berne-gauge rail links to a Greater London passenger terminal and freight transhipment point would save us all a lot of trouble and noise before the end of this century. This would also create much useful employment and encouragement to our construction, engineering and electrical industries during a period when their resources are unlikely to be fully stretched.

Ralf Bonwit.
Sorby, Kiln Lane,
Binfield Heath,
Henley-on-Thames.

Crossroads is the greatest

From Mr. J. Graham.

Sir,—Winston Fletcher's article (February 1) "What the people want" is both patronising and inaccurate.

If he is going to write at length about "Crossroads" he might have done the elementary homework to establish that it goes out four times, not five times, a week. A minor point, but typical of the slipshod attitude so prevalent with the modern journalist, and not what one hopes for in your august paper.

One reason for Crossroads' large viewing figures, which may not be immediately apparent, is the relaxing and soothing effect of a programme which requires no mental effort whatsoever from the viewer. As a graduate, holder of a professional qualification, and a director of a public company, I am possibly not Winston Fletcher's ideal of a typical Crossroads viewer, but I am, nevertheless, an addict.

It is screened at the precise moment that I most want to relax — a few minutes after I get home, often a little bit tense after a day's work followed by a rush-hour journey. For 20 minutes my family know that I am incommunicado. Children and wife must defer their demands until Crossroads is over, by which time one has revived and is capable of helping with homework, mending fuses, and sympathising with the story of the row with the milkman or the laundry.

Quite possibly Yoga would have a similar effect, but Crossroads is much easier.

J. A. Graham.
Old Ferry House, River Lane,
Petersham, Surrey.

No automatic up-lift

From Mr. S. Fisk.

Sir,—John Philip in his article "Index-linked cover for homes" (January 21) rightly draws attention to the effect of inflation on the cost of rebuilding and what the insured can do to safeguard himself against increases in building costs, even to the extent of a monthly up-lift. As he states, a similar arrangement can be made for contents: it is in fact advised by insurance companies.

When, however, insurance of contents is on the basis of replacement at second-hand value, there seems no sense in increasing cover automatically by the amount of the Retail Price Index because this will not be the basis on which a claim would be settled. If an item in 1974 was worth £100, according to the RPI it would now be worth about £160, but being four years older it could be worth less for insurance purposes than in 1974. I think one has to do it the hard way and check values at every renewal, and not adopt an automatic up-lift. Such an arrangement may be troublefree but it is certainly expensive in premium.

S. H. Fisk,
5, Eccleston Street, S.W.1.

Unnecessary activities

From Dr. K. Paulus.

Sir, — May I offer Joe Rogaly (January 31) the following comments?

The use of the word "secretary" has changed greatly since the days when being a secretary was largely a male occupation, as Mr. Rogaly seems to accept when, imprecisely, he refers to secretary and secretary/shorthand typist in much the same breath. Those secretaries who still deserve the designation are increasingly hard to find, and they should be more adequately rewarded in all respects than is the case. If the job were worth while and paid well, and if the inequitable barrier to promotion were removed, then it would again become attractive.

Mr. Rogaly assumes that all executives must be male and all secretaries female. He might care to rethink his arguments if the tables were turned (for example, if secretarial posts did indeed attract more male applicants).

It could be all to the good that there are not enough of the kind of secretary Mr. Rogaly refers to: it may just lead executives to question what they actually do. In many contemporary business and service environment jobs are done, stacks of paper moved, records kept which are rarely essential for achieving the objectives behind the activity at hand; and it is usually left to the secretary to do them. Such status symbols we can do without (not to mention "office wives").

Kurt Paulus.
22, Sunningdale, Clifton, Bristol.

To-day's Events

GENERAL

Prime Minister meets CBI to discuss progress towards Bullock Committee proposals for worker-directors.

President Sadat of Egypt continues visit to U.S. prior to tour of Western Europe.

Mr. Roy Jenkins, president, European Communities Commission, and Mr. Gordon Richardson, governor, Bank of England, speak at Overseas Bankers' Club dinner, Guildhall, E.C.2.

Wholesale price index (January, provisional).

Mr. Eric Varley, Industry Secretary, gives evidence in private on British Steel Corporation to Select Committee on Nationalised Industries.

Mr. Ivor Richard, U.K. permanent representative to United Nations, speaks on "Western Options in South Africa" at Royal Commonwealth Society, Northumberland Avenue, W.C.2.

Mr. Peter Parker, chairman, British Rail, is guest speaker at Coal Industry Society lunch, Hyde Park Hotel, S.W.1.

Lord Roll (chairman, S. G. Warburg and Co.) chairs conference on "China and Britain—the Prospects for Trade" at Royal Lancaster Hotel, W.2. Other speakers are Mr. Edmund Dell, Trade Secretary; Mr. Edward Heath, MP; Sir John Keswick, vice-president, Sino-British Trade Council; Mr. Peter Marshall, the Council's director of trade promotion; Lord Robens, chairman, Vickers, and Mr. Kenneth Thorogood, executive chairman, Tozer, Kemsley and Millbourn (Holdings).

PARLIAMENTARY BUSINESS

House of Commons: Private Members' motions. Debates on broadcasting Commons' proceedings and on report of the Committee of Privileges.

OFFICIAL STATISTICS

Retail sales (December, final). Hire-purchase and other instalment credit business (December). Housing starts, completions and grants (December).

COMPANY MEETINGS

See Week's Financial Diary on Page 31.

COMPANY NEWS

Watshams ahead midterm

TURNOVER FOR *the half year to* September 30, 1977, of Watsham's dropped from £2.33m. to £1.07m., *reflecting the transfer of the* electrical transmission contracting activities to Hawker Siddeley *Power Engineering last year*. Pretax profits however advanced from £207,500 to £248,000.

After tax of £124,000 (£108,000) and minority interests of £13,000 *(£9,000)*, earnings are shown to be up from 4.1p to 5p per 25p share and the interim dividend is lifted *from 1.5p to 1.65p net.*

The directors say they would like to increase the dividend to properly reflect the improved performance in recent years, and *will, if permitted*, recommend a final dividend which would result in a substantial increase over the *totals of previous years.*

For 1976-77 a total of 3.6075p was paid from stated earnings of 10.5p. Profits before tax came to £507,484.

Mr. W. G. Haydon-Baillie, the chairman, says that progress in the main operating areas in the home and export markets is in line with expectations.

The company continues to hold large cash resources with which it intends to enlarge the group in areas related to its established activities, as well as continuing its *internal re-equipment* and investment programme.

BOARD MEETINGS

The following companies have notified dates of Board meetings to the Stock *Exchange. Such meetings are usually* held for the purpose of considering divi*dends. Official indications are not avail*able whether dividends concerned are *interims or finals and the sub-divisions* shown below are based mainly on last year's timetable.

TO-DAY

Interims: Vibroplant.
Finals: U.C. Investments.

FUTURE DATES

Interims—	
JCEG	Feb. 14
ML Holdings	Feb. 9
Morgan Edwards	Feb. 9
Finals—	
AC Cars	Feb. 14
Crouch (Derek) (Contractors)	Mar. 9
Glass and Metal	Feb. 5
Hirst and Mallinson	Feb. 8
Hongkong and Shanghai Banking	Feb. 28
Pentland Investment Trust	Feb. 21

A professional revaluation of the company's properties was *made towards the end of the* period showing a surplus in excess of £300,000 over the figure in the accounts. The new freehold head office and central warehouse *building was not included*, but Mr. Baker is confident that, especially after further development, there will be a considerable surplus over cost on this property.

The directors consider that a large part of the sum previously set aside as deferred tax will not become payable in the foreseeable future and have therefore decided *to transfer £207,000 to general* reserve out of the previous total of £225,397.

Reserves now stand at a relatively high level in relation to *their company's* issued capital and the directors, therefore, feel it *appropriate* to recommend a capitalisation issue on the basis of one share for every two shares *now held. They also propose to* increase the authorised share capital from *£300,000 to £500,000* by the creation of a further 2,000,000 shares.

Meeting, Leeds, on March 8, at noon.

Confidence at Bakers Stores

CURRENT YEAR trading for the first quarter *up to Christmas of* **Bakers Household Stores (Leeds)** was at a record level but Mr. *Barry Baker*, the chairman feels it would not be prudent to make *any forecast* in view of the uncertain nature of consumer spending.

The directors look forward with quiet confidence, he says in his annual statement, *especially* as the company is in an excellent position to take advantage of suitable *opportunities for further expan*sion.

As reported *on January 13*, pretax profits rose from £204,825 to £225,101 for the 53 weeks to Octo*ber 1, 1977*, on turnover up £2.51m. against £2.17m. The dividend total is the maximum permitted 0.847p (0.75p) net per 10p share.

A statement of source and application of funds shows an increase in building society, bank, and cash balances of £127,779 (£23,064).

Mr. Baker says the results are satisfactory, having regard to the depressed state of consumer spending, and the poor spring and summer weather in the year.

Towards the end of the year the head office and central warehouse were transferred to new premises. *The effect on trading was minimal* but certain non-recurring costs were involved, all of which were charged against the year's profits.

The move has proved most satisfactory, and the extra facilities *and large increase in storage* space afforded by the new building, will prove *beneficial* to the company, in particular by facilitating future expansion.

Charterhouse Japhet upsurge

EARNINGS and resources of **Charterhouse Japhet** grew satis*factorily in 1977, with profit of* £815,000 after tax and transfer to *inner reserve* more than double that of the previous year (£402,000) says Mr. M. H. W. Wells, chairman, *in his annual state*ment.

*During the year ended Sept*ember 30, 1977, the traditional banking activities grew in volume and produced a substantial proportion of the overall profit. *Acceptances at the year end stood* at over £26m. Fee income received in foreign currency, largely related to oil and energy activities, exceeded $1m.

The trading division, which undertakes transactions in sterling and foreign currencies, Eurocurrencies and Euro-bonds, again produced a record contribution *to profits and the corporate finan*cial services department had a *sucessful year* earning fees from over 30 client companies for services covering capital raising, *acquisitions*, take-over defences and general financial advice.

The investment department again increased its business and now manages 23 pension funds with assets exceeding £100m. A *successful offer was made for the* Atlantic Shipping and Trading Company, an investment holding *company*, enabling the department to offer a £10m. portfolio of listed securities for the bank's clients, including pension funds.

International activities were rationalised and further de*veloped with the sale of the* bank's interest in the consortium bank, Atlantic *International Bank*, and the acquisition of a further 51 per cent. interest in Etablissement *Financier de Placements* SA, Geneva, giving 100 per cent. ownership. In addition, the bank acquired 51 *per cent.* of the shares of ED Sassoon Bank and Trust *International of Nassau*, Bahamas.

Services in the U.K. also were expanded with plans for CJ (Northern) to provide commercial *banking* as well as its *present* corporate finance services.

The bank's range of services has been greatly expanded in recent years, Mr. Wells says, and *it is well placed to meet the* broadening requirements of both present and future customers.

Charterhouse Japhet is a wholly owned subsidiary of Charterhouse Group.

Downturn at Celtic Haven

Reporting *pre-tax* profits reduced from £44,889 to £8,915 for the six months to September 30, *1977, the directors of Celtic Haven* say that the full year figure should not *differ materially from* the record £102,000 of 1976-77.

First half turnover advanced *from £996,853 to £1,099,368* and profits were subject to tax of *£4,635 (£23,342), leaving a net* surplus down at £4,280 (£21,547).

As usual, the annual dividend will be considered in the light of the full year's results, the direc*tors state—last year's net pay*ment was 0.29316p per 5p share.

There were several contributory causes for the cut in profit, the directors report. Drilling acti*vity in the Celtic Sea* was at a significantly lower level, with a consequent reduction in the contribution from the company's supply base subsidiary.

The market for early potatoes returned to more normal conditions and Little Haven Farms was unable to repeat the exceptional profits of the two previous sea*sons, while in addition, excep*tional professional fees of £11,832 have been charged in the first half.

The plans of B and I Line to *move its ferry terminal to* Pembroke Dock in 1979, combined with the building of two catalytic cracker plants on the Haven at a cost of £365m., is welcome news *for prospects in the area, the* directors state.

Mr. Matt Sheppard is to succeed Mr. James Rowlatt as chairman.

Expansion hopes at J. F. Nash

Confidently forecasting increased *profits for the current* year Mr. J. F. Nash, chairman of **J. F. Nash Securities**, says he *hopes this will be coupled with* the possible expansion of the group's activities.

He reports that the group is now a much tidier operation than at any time in its history and he *sees no reason why it should not* go from strength to strength. It is expected that Gailey Group will recover some of the ground it lost in 1977 and the other subsidiaries will *maintain* or improve their results.

Pre-tax profits for the year to *September 30, 1977, reported* January 13, fell from £903,000 to £717,000 on turnover up from *£14.87m. to £17.18m. Exports* amounted to £1.85m. (nil).

Members are told that the year saw considerable streamlining and strengthening of the group. Most of the associate *companies* and other minorities have been *realised* at satisfactory prices. There has been a major acquisition—the *77* per cent. interest in Reliant Motor Group; and a major disposal—the holiday parks *division of Gailey Group.*

Commenting on Gailey Group, Mr. Nash says that its performance was extremely disappointing. After completing a *reappraisal* of the group's structure during the year the directors *negotiated* the sale of the caravan division's four holiday parks for a price of £1.67m. This *sale improves the liquidity of the* division and will enable further expansion in the *retail* side of the caravan industry, in which Gailey *has greater expertise* and can earn a higher return on capital employed.

Assets and profits of Reliant Motor Company (the motor manu*facturing subsidiary of the Reliant* Motor Group) have not been incorporated in the consolidated *accounts. The Board considered* that the inclusion would create a misleading impression on two *counts.* Firstly, it would have had the effect of almost doubling the group's net asset value, producing a figure of approximately 200p per Ordinary share. Secondly, *it would indicate* that the other companies in the group were *responsible* for the borrowings of Reliant Motor Company. In fact, this is not the case. The borrow*ings are guaranteed only by* Standard Chartered Bank: the Board having made clear from the outset that neither J. F. Nash Securities nor any of its subsidi*aries could provide finance to* Reliant Motor Company or guarantee any of its existing borrowings. By the same token any profits of Reliant Motor *Company should remain in* that company to reduce borrowings and thus not be available for distribution.

The assets and profits of Reliant Motor Group and its three engineering subsidiaries have been *included in the accounts.* Profit before tax for the seven months ended September 30, 1977 was £229,000, compared with a profit of £360,000 earned in the year to *February 28, 1977.*

Meeting, Birmingham, on March *2, at noon.*

BIDS AND DEALS

£2m. Italian purchase for T & N

Turner and Newall, through its subsidiary Engineering Components, has agreed to acquire the total equity of an Italian *automotive filtration company for* a sum equivalent to nearly £2m. Completion of the acquisition is expected in the near future.

The purchase embraces FIAAM Filter and Denver Components Italia, which are situated in Mantova, North Italy. Though separate, the *companies are* managed as a single enterprise, the former handling both production and marketing and the latter being a production unit only. *They manufacture and sell a com*prehensive range of automotive filtration elements, as well as liquid filter housings and air cleaners, for most European *vehicles.*

Their range includes heavy duty *liquid filter housings and elements* for truck and off-highway vehicle manufacturers. They command *about a third of the market for* these products in Italy, and export a fifth *of their sales.*

In Italy Turner and Newall's automotive components division already has a 90 per cent. *interest* in Ferodo Italiana, which manufactures brake and clutch linings and incorporates and Payen/Halls automotive gasket division in Mondovi, and a 22.73 per cent. interest in SATAMV, a leading trade *distributor of automotive com*ponents.

Acquisition by Gilflex Conduits

Agreement has been reached in principle for **Gilflex Conduits** to purchase from **Key Terrain**, the *Key Electrical Trunking and* Ducting Systems business only. As a result of this **Reed Building Products**, of which Key Terrain is a subsidiary, will hold 25 per cent. *of the equity of Gilflex Conduits.*

More support for Jaycee Furniture

The Industrial and Commercial Finance Corporation (ICFC) has *provided a 12-year loan of £400,000* to Jaycee Furniture, a Brighton-based manufacturer of reproduction antique furniture. The money has been used to purchase equipment for a new Jaycee factory at Eastbourne.

Around 57.4 per cent. of *Jaycee's output goes abroad*, and the company has twice won a Queen's Award for export.

Over the past 15 *years*, £629,000 of loans has been provided by ICFC *in several tranches to meet* the needs of each stage of Jaycee's growth.

Brit. American and General

Total gross revenue of **British American and General Trust** rose from 1.35m. to 1.81m. for 1977 and net earnings for *Ordinary stock* advanced from 718,880 to 844,355 equal to 1.71p (1.48p) per *25p share.*

The dividend total is lifted from 1.4p to 1.65p net *with a final of* 1p.

Net assets stood at £25.69m. (£21.03m.) *at the year end* or 52p (43p) per share.

BRENTNALL BEARD

Mr. Fred Beard, the chairman of **Brentnall Beard (Holdings)**, is to be appointed president at the end of the company's current *financial year.*

The Shrewsbury-based international insurance brokers passed a special resolution at its AGM. This year is the chairman's golden *jubilee.*

LRC—95%

LRC International's rights issue has been taken up as to 95.53 per cent

Shares not taken up have been sold at a premium and the net proceeds (estimated at *27.29p* per share) will be remitted to entitled shareholders, except where the *net proceeds amount to less than* £1.

● NEWS ANALYSIS—BOC/AIRCO

Will White Knight keep BOC in check?

BY STEWART FLEMING

IN OCTOBER of last year the Boards of BOC International and Airco, its U.S. associate and the third largest industrial gases producer in the country, met in Washington.

Although a business affair Airco had organised what it hoped would be an instructive *and entertaining programme for* its largest—and British—shareholder. In addition to the obli*gatory trip around the White* House it included a meeting with one of President Carter's *closest advisers, special Trade* Representative Mr. Robert Strauss.

To-day that meeting is cited by Airco officials as indicative of the friendly relations which executives *of both companies* agree had then developed over their four-year relationship.

Now, in a matter of two months that relationship has degenerated into bitterness, cynicism and distrust *on the* Airco side. The two top officers of Airco have resigned from the BOC Board, and at Board meetings of Airco in the past two weeks the British and American directors have exchanged angry recriminations.

*Thus, in a letter to Share*holders this week, Airco directors, explaining why they are suing BOC and *seeking to find* another company to bid for Airco shares, will say they were astonished by BOC's decision on January 24 to announce its intention to ambush Airco. BOC had achieved a key objective of securing a 49 per cent. stake in *Airco which put it in a virtually* impregnable position to fight a rival takeover, and then changed *course.*

It announced on January 24 that, in effect, it wanted to tear up the agreement between the two companies. Under this agreement BOC had increased its share stake in Airco from 34 per cent. to 49 per cent. but instead of *acquiring just 1.8m.* Airco shares at $43 per share BOC suddenly announced that it wanted to make an offer for all Airco stock in public hands at that price.

Airco has rejected BOC's explanation for this change of policy—namely the heavy oversubscription of 6m. shares for the 1.8m. it said it initially intended to buy.

Instead, Airco argues in its lawsuit that BOC deliberately misled it. *Airco claims that* BOC intended to buy all or most of Airco's shares even when it agreed only to make an offer for 1.8m. It says that, among other things, this violated BOC's fiduciary responsibility, as a major *shareholder, to other share*holders.

The current situation between the two companies *is ironic. It* was late in 1973 when BOC acquired its 34 per cent. stake in Airco at $20 per share. Then *Airco was facing* a tender offer for 20 per cent. of its stock from another U.S. company Curtiss-Wright.

In the following three years Airco's business, the sale of in*dustrial gases* and ferro alloys, prospered. Earnings per share rose from the $1.66 *level* in 1973 *to $4.68 in 1976, a period which* saw sales increase from $584m. to $837m. The company paid out *a diminishing proportion* of its earnings to shareholders however—in 1976 only 23 per cent.

Last year, in part because of the depressed conditions in the U.S. steel industry which takes about one third of Airco's sales, profits stagnated at $55.5m. compared with *$54m. in 1976.*

During this period of growth for Airco, BOC fought off a U.S. *Government anti - trust* suit brought by the Federal Trade Commission. The suit aimed to for BOC to divest its 34 per cent. interest in Airco on the grounds that BOC could have come into the U.S. market on its own and therefore the purchase reduced *potential competition.*

Airco was anxious last summer to resolve the question *of BOC's future shareholding.*

In December of last year an agreement was reached, but one which was probably not satisfactory to either side and only secured after painful negotiations. Previously BOC in October had taken the trouble to organise a *$400m. line of credit* from major banks in case it needed to bid for all Airco's *stock.*

Unless one accepts BOC's oversubscription argument as *the whole story, the company* has yet to explain why it decided, with the 49 per cent. stake *in its hands*, to jeopardise its relationship with Airco, and its U.S. foothold, by asking Airco to by-pass the December agreement.

The sharp decline in U.S. share prices between December and January and the continued fall in the dollar could have been factors in what would seem to be an opportunistic — Airco claims illegal — change of plan.

The change could however be critical. At the least BOC is running the risk of losing some top Airco executives which it might not want to lose.

But if Airco is successful in the *difficult task of finding a* rival bidder — "a white knight" in Wall Street parlance — then the risks are higher.

Airco claims to be talking with prospective buyers and it is not inconceivable, given the relatively cheap price which Airco could be *sold for to BOC, that a* "white knight" would appear. If so it will be an indication that it believes that lawyers will be able to substantiate Airco allegations against BOC, or that Airco has a chance of persuading the Delaware courts *to rule* in its favour.

As one Wall Street expert put it: in this case the lawsuits could go *on for months. Otherwise the* battle could well be over in a few weeks and BOC will then most probably *emerge more* firmly in control of Airco although it may have to pay a higher price than $43 per share.

LOCAL AUTHORITY BOND TABLE

Authority (*telephone number in parentheses*)	Annual gross interest	Interest payable	Minimum sum	Life of bond
	%		£	Year
Barnsley Metro. (0226 203232)	9	½-year	250	4-7
Poole (02013 5151)	9	½-year	500	4
Poole (02013 5151)	9	½-year	500	5-7
Reading (0734 592337)	10	½-year	1,000	5-7
Redbridge (01-478 3020)	9	½-year	200	5-7
Southend (0702 49451)	9	½-year	250	3
Thurrock (0375 5122)	9	½-year	300	4
Thurrock (0375 5122)	10	½-year	300	5-7
Wrekin (0952 505051)	7	½-year	500	2
Wrekin (0952 505051)	9	½-year	500	4
Wrekin (0952 505051)	9	yearly	1,000	4

SIMCO MONEY FUNDS
(Saturn Investment Management Co. Ltd.)

Rates of deposits of £1,000 and upwards *for w/e 5.2.78.*

7-day Fund	% p.a.
Mon.	6.037
Tues.	6.023
Wed.	6.008
Thur.	6.014
Fri./Sun.	5.964
3-Month Fund	
Wed.	5.75

FINANCE FOR INDUSTRY TERM DEPOSITS

Deposits of £1,000-£25,000 accepted for fixed terms of 3-10 years. Interest paid gross, half-yearly. Rates for deposits received not later than 17.2.78.

Terms (years)	3	4	5	6	7	8	9	10
Interest %	9¼	9¾	10¼	10½	10¾	11	11¼	11¼

Rates for larger amounts on request. *Deposits* to and further information from The Chief Cashier, Finance for Industry Limited, 91 Waterloo Road, London, SE1 8XP (01-928 7822, Ext. 177). Cheques payable to "Bank of England, a/c FFI." FFI is the holding company for ICFC and FCI.

Pending dividends timetable

For the convenience of readers the dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements, except where the forthcoming Board meetings (indicated thus*) have been officially published. It should be emphasised that the dividends to be declared will not necessarily be at the amounts or rates per cent. shown in the column headed "Announcement last year." Preliminary profit figures usually accompany final dividend announcements.

[illegible]

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made from reserves.

RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimate. g Assumed dividend and yield. u Forecast dividend; cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1979. q Gross. T Figures assumed. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price to public. pt Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of Ordinary shares as a "rights." ** Rights by way of capitalisation. †† Minimum tender price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or take-over. ‖‖ Introduction. □ Issued to former Preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants.

BASE LENDING RATES

A.B.N. Bank	6½%	C Hoare & Co. †	6½%
Allied Irish Banks Ltd.	6½%	Julian S. Hodge	7½%
American Express Bk.	6½%	Hongkong & Shanghai	6½%
Amro Bank	6½%	Industrial Bk. of Scot.	6½%
A P Bank Ltd.	6½%	Keyser Ullmann	6½%
Henry Ansbacher	6½%	Knowsley & Co. Ltd.	9 %
Banco de Bilbao	6½%	Lloyds Bank	6½%
Bank of Credit & Cmce.	6½%	London & European	8½%
Bank of Cyprus	6½%	London Mercantile	6½%
Bank of N.S.W.	6½%	Midland Bank	6½%
Banque Belge Ltd.	6½%	■ Samuel Montagu	6½%
Banque du Rhone	7 %	■ Morgan Grenfell	6½%
Barclays Bank	6½%	National Westminster	6½%
Barnett Christie Ltd.	8½%	Norwich General Trust	6½%
Bremar Holdings Ltd.	7½%	P. S. Refson & Co.	6½%
Brit. Bank of Mid. East	6½%	Rossminster Accept'cs	6½%
■ Brown Shipley	6½%	Royal Bk. Canada Trust	6½%
Canada Permanent AFI	6½%	Schlesinger Limited	6½%
Capitol C & C Fin. Ltd.	9 %	E. S. Schwab	8½%
Cayzer Ltd.	7 %	Security Trust Co. Ltd.	7½%
Cedar Holdings	8 %	Shenley Trust	9½%
■ Charterhouse Japhet	6½%	Standard Chartered	6½%
C. E. Coates	7½%	Trade Dev. Bank	6½%
Consolidated Credits	6½%	Trustee Savings Bank	6½%
Co-operative Bank *	6½%	Twentieth Century Bk.	7½%
Corinthian Securities	6½%	United Bank of Kuwait	6½%
Credit Lyonnais	6½%	Whiteaway Laidlaw	7 %
The Cyprus Popular Bk.	6½%	Williams & Glyn's	6½%
Duncan Lawrie †	6½%	Yorkshire Bank	6½%
Eagil Trust	6½%		
English Transcont.	8 %		
First London Secs.	6½%		
First Nat. Fin. Corpn.	8½%		
First Nat. Secs. Ltd.	8 %		
■ Antony Gibbs	6½%		
Greyhound Guaranty	6½%		
Grindlays Bank ‡	6½%		
■ Guinness Mahon	6½%		
■ Hambros Bank	6½%		
■ Hill Samuel §	6½%		

■ Members of the Accepting Houses Committee.
* 7-day deposits 3%, 1-month deposits 3½%.
† 7-day deposits on sums of £10,000 and under 3%, up to £25,000 3½% and over £25,000 4½%.
‡ Call deposits over £1,000 3%.
§ Demand deposits 4%.
¶ Rate also applies to Sterling Ind. Secs.

INTERNATIONAL COMPANY NEWS

Half-year peak for Lend Lease

BY LAURENCE STEPHENS SYDNEY, FEB. 4.

LEND LEASE Corporation Ltd., the Sydney-based property developer, overcame substantially higher interest charges and depreciation provisions in the six months to December 31, to post a 23 per cent. higher net profit of $A6.95m., a record for the group in a half-yearly result.

The result—the more impressive since it came on a sales increase of only 3.7 per cent.—reflected the benefits of undeveloped land sales which reduced the book value of such assets to $A1.78m. The net inflow of cash during the period was $A3.2m.

Although home sales were poor during the period under review, they are now showing signs of recovery, the company said. It expects to maintain a similar growth rate in the second half of the year, and has predicted a net profit of $A15m. for the full 12 months.

The interim dividend, which is steady at 6.25c a share, is effectively 20 per cent. higher because it will be paid on an increased share capital, after a one-for-five scrip issue.

Lend Lease's sales rose 3.7 per cent. to $A125.7m. while earnings increased from 11.3c to 13.9c a share. The profit was after tax of $A5.34m. ($A4.28m. a year ago), interest of $A1.01m. ($A722,000) and depreciation of $A1.34m. ($A1.06m.).

APPM holds recovery

BY OUR OWN CORRESPONDENT SYDNEY, February 5.

FINE PAPER maker, Associated Pulp and Paper Mills (APPM) announced a further consolidation of the recovery it achieved in the past full year, with a 20 per cent. net profit rise to $A4.37m. (U.S.$4.97m.) in six months to December 31.

APPM, which shelved a $A200m. expansion programme early last year, as a result of the recession in the industry, held output at about 75 per cent. of capacity in the period, to achieve an 8 per cent. sales increase at $A94.9m.

Directors said that a modest improvement in market conditions had been eroded by severe competition from imported papers, a problem which had been aggravated by low levels of protection from imports.

The company's report outlined marketing problems in the particle board industry, which is another area of APPM's activities, but directors expressed hope that the result for the full year would be higher than that achieved in 1977. The company is going ahead with a scaled-down expansion plan at one of its mills despite the uncertain industry conditions.

The interim dividend had been raised from 4c to 4.5c a share.

Nestle-Chambourcy

PARIS, Feb. 5.

NESTLE SA increased its stake in Chambourcy SA, the food company, to 59.4 per cent. by purchasing 55,700 shares from non-resident holders outside France, the Stockbrokers Association said.

The shares were bought at a unitary price of Frs.205 ($U.S.42.4), adding to the 26,700 shares Nestle already held out of the total 138,000 nominal Frs.100 shares issued.

Nestle will buy all Chambourcy shares offered at Frs.205 between February 6 and May 5 inclusive, it said.

Increase in profits at Winsor

By Daniel Nelson

HONG KONG, Feb. 4.

DESPITE "general unfavourable trading conditions" in the six months to September, Winsor Industrial Corporation made an unaudited post-tax net profit of HK$29.50m. (US$64m.) compared with HK$27.94m. for the corresponding period of the previous year.

The interim dividend payable in March remains at 9 cents and the company "expects to achieve at least the net profit for the previous year."

Because Winsor has some 9 per cent. of Hong Kong's total textile capacity, its results are widely taken as an indicator of the industry's performance. In its last full year the company broke through the HK$1bn. sales barrier, achieving a 19.4 per cent. profit increase to HK$58.89m.

The company's chairman, T. K. Ann said that it had not been an easy year for Hong Kong's textile and clothing industries, with cotton prices rising threateningly and then slumping. Many buyers had held off because of uncertainties over the renewal of the Multi-Fibre arrangement and the renegotiation of bilateral agreements with the colony's major markets.

But 1978 looked more promising, with many major uncertainties removed. Mr. Ann hit out at the "manifest injustice," of the Hong Kong-EEC settlement, and commented: "Its long-term damage to our industries can not yet be quantified in precise terms but textile and clothing prices in the EEC countries are bound to go up."

The agreement, and that with the U.S., however, would stabilise Hong Kong's textile trade with these markets "for at least the next five years, and will force Hong Kong further onto the road of trading-up and diversification."

The current low fibre prices would help manufacturers when they used up their inventory purchased at higher prices.

Money and Exchanges

Bank of England Minimum Lending Rate 6½ per cent. (since January 6, 1978)

Fears that the Government's pay guidelines could face stiff opposition from the miners and powerworkers, and the problem of industrial action by oil company tanker drivers, contributed to the nervous conditions in the London money market last week.

It became clear from early trading that there was no enthusiasm for a fall in Bank of England Minimum Lending Rate, with discount houses buying rates for three-month Treasury bills moving away from the trigger point for a cut in MLR. The main concern of the houses was to see an easing of the rate paid for overnight money, and to this extent they must be rather happier at the end of the week than at the beginning.

The recent squeeze on the houses running profits, made them willing to sell Treasury bills to relieve any day-to-day shortage of credit. The authorities bought a large amount of bills on Monday, but not enough to take out the full shortage. There was some disappointment on Tuesday, when the Bank of England lent a large amount overnight to six or seven houses, rather than buy more bills.

The amount of help was even overdone, but at least this helped to create an abundant supply of funds on Wednesday. A surplus was left in the banking system overnight on that day, as the houses declined the authorities' offer to absorb funds by selling them Treasury bills. Another small surplus was left to be carried forward on Thursday, and the houses were picking up funds at well under 6 per cent. for much of the week, making conditions much more comfortable. The houses also declined the offer of bills on Friday, but the surplus left, must be set against to-day's final call on 10½ per cent. Treasury 1999.

Early February is often a difficult period for the houses, with large shortages creted by heavy tax payments. A major factor behind the difficult conditions in January was the payment of tax however, and the situation this month can be expected to improve.

President Carter's press conference turned out to be of less interest than the foreign exchange market expected, while the U.S. trade figures for December were rather better than generally feared. The dollar was fairly firm, with its trade-weighted depreciation, on Morgan Guaranty figures, narrowing to 4.39 per cent. from 4.59 per cent.

Fears about the outcome of next month's General Election in France prompted selling of French francs, which began in New York on Wednesday. The French authorities intervened to stem the fall, but the currency closed at around its worst level of the week against the dollar, at Frs.4.91, compared with Frs.4.73 on the previous Friday.

Sterling lost ground on Friday, on fears about the future of the Government's pay guidelines. It closed at $1.9410-1.9420, a fall of 60 points on the week. The trade-weighted index, on Bank of England figures, fell to 66.4 from 66.5.

Gold fell $1½ to $174½-175½ following disappointment at the result of the IMF gold auction

Feb. 3 1978	Sterling Certificate of deposits	Interbank	Local Authority deposits	Local Auth negotiable bonds	Finance House Deposits	Company Deposits	Discount market deposit	Treasury Bills ф	Eligible Bank Bills ф	Fine Trade Bills ф
Overnight	—	4-6¾	—	—	—	5¾	3-6	—	—	—
2 days notice	—	—	6-6⅛	—	—	—	—	—	—	—
7 days or 7 days notice	—	6¼-6⅝	6⅛-6¼	—	6¼-6½	6¼	5¾-6⅛	—	—	—
One month	[illegible]	[illegible]	6⅛-6¼	6¾-6⅝	6⅜-6⅝	6½	5⅞-6	[illegible]-5⅞	[illegible]-6⅛	6¾-6⅞
Two months	6⅝-6¼	6⅛-6⅜	—	6⅝-6⅜	6½-6¾	—	6	[illegible]	[illegible]	6½
Three months	6½-6⅜	[illegible]-6⅝	6⅜-6½	6⅝-6⅝	6½-6¾	6¾	6-6⅛	[illegible]	6¼	6⅝-6¾
Six months	[illegible]	7-7⅛	6⅝-6⅞	7⅛-6⅝	7-7½	—	—	—	[illegible]	6½-6¾
Nine months	7⅜-7¼	[illegible]-7⅝	—	7¾-7⅝	7¾	—	—	—	—	—
One year	7½-7⅜	7⅝-7½	7⅝-7½	7⅞-7⅝	8	—	—	—	—	—
Two years	—	—	8⅛-8⅝	—	—	—	—	—	—	—

Local authorities and finance houses seven days' notice, others seven days' fixed. *Longer-term local authority mortgage rate nominally three years 9½-9¾ per cent.; four years 10¼-10½ per cent.; five years 10½-10¾ per cent. ФBank bill rates in table are buying rates for prime paper. Buying rate for four-month bank bills 6¾ per cent.; four-month trade bills 6¾-6⅞ per cent.

Approximate selling rate for one-month Treasury bills 5²⁵⁄₃₂-5¹³⁄₁₆ per cent.; two-month 5²⁷⁄₃₂ per cent.; and three-month 5⅞-5²⁹⁄₃₂ per cent. Approximate selling rate for one-month bank bills 6 per cent.; two-month 6¹⁄₁₆ per cent.; and three-month 6⅛-6³⁄₁₆ per cent. One-month trade bills 6⅝-6¾ per cent.; two-month 6⅝ per cent.; and also three-month 6⅝-6¾ per cent.

Finance House Base Rates (published by the Finance Houses Association): 7 per cent. from February 1, 1978. **Clearing Bank Deposit Rates** (for small sums at seven days' notice) 3 per cent. **Clearing Bank Rates for lending** 6½ per cent. **Treasury Bills:** Average tender rates of discount 5.9275 per cent.

FOREIGN EXCHANGES

[illegible]

‡ Rates given are for convertible francs. Financial franc 65.55-65.45.

OTHER MARKETS

[illegible]

Rate given for Argentina is a free rate.

GOLD MARKET

[illegible]

EXCHANGE CROSS-RATES

[illegible]

U.S. $ in Toronto U.S. $ = 110.58-65 Canadian cents. Canadian $ in New York = 90.19-21 cents. U.S. $ in Milan 867.80-868.80. Sterling in Milan 1683.00-1684.00.

FORWARD RATES

	One month	Three months
Cop'nhgn.	8-10 ore dis	23½-25½ ore dis
Frankfurt	1⅝-⅝ pf. pm	4¾-3¾ pf. pm
Lisbon	85-110 c. dis	430-640 c. dis
Madrid	60-140 c. dis	390-470 c. dis
Milan	10-18 lire dis	37-45 lire dis
Oslo	4½-6½ ore dis	17-18 ore dis
Paris	7¼-8¼ c. dis	19½-20½ c. dis
Stockh'lm	4-5 ore dis	10½-12½ ore dis
Vienna	2-12 gro pm	5-27 gro dis
Zurich	2⅝-1⅝ c. pm	7-6 c. pm

Six-month forward dollar 0.15-0.05c pm 12-month 0.40-0.30c pm.

EURO-CURRENCY INTEREST RATES

[illegible]

* Rates are nominal calling rates.
† Short-term rates are call for sterling, U.S. dollars and Canadian dollars; two days' notice for guilders and Swiss francs.

CURRENCY RATES

	Special Drawing Rights	European Unit of Account
	February 3	February 3
Sterling	0.625870	0.630541
U.S. dollar	1.21281	1.22260
Canadian	1.34476	1.35461
Austria sch.	18.3225	18.4550
Belgian franc	39.5437	39.8628
Danish krone	6.94031	6.99080
Deutschemark	2.55187	2.57308
Dutch guilder	2.73125	2.75342
French franc	5.93064	5.97500
Italian lira	1,052.63	1061.53
Japanese yen	293.197	295.357
Norway krone	6.21525	6.26971
Spain peseta	98.1163	98.8561
Swedish krone	5.64320	5.68251
Swiss franc	2.38802	2.40346

MINING NOTEBOOK

It's a decisive month for Aussie uranium

BY LODESTAR

FEBRUARY IS yet another "decisive" month for Australia's potential uranium miners. Coincidentally came last week's news of a new find in the Northern Territory by the partners in one of the major known deposits Ranger, namely Peko-Wallsend and EZ Industries.

The great question is when, if ever some despairingly say, the country's great potential in this vital component of the world's energy requirements will actually be turned to account.

At the moment even the present sole producer, the RTZ group's Mary Kathleen mine, is perforcedly stockpiling its output and resultantly incurring an ever-increasing burden of debt.

This is because, in spite of all its protestations and those of its Labor predecessor that existing overseas uranium contracts would be sacrosanct, the Fraser Government has bowed to union pressure and suspended all shipments until the unions involved have voted yea, or nay. That vote is due to be taken this month.

But already the unions concerned are in disarray over their intentions whether or not to participate therein. The crunch date now seems to be Thursday when ACTU (the down-under equivalent of our TUC) meets to decide what to do. And its chief, the hawkish Mr. Hawke, is reported to have expressed the opinion that there is no hurry because demand for uranium is decreasing.

Surely, if it is, there is all the more reason for the Australians to secure sales contracts as quickly as possible especially as their competitors are hot on the trail.

South Africa's successful activities in this direction were once again underlined by last week's news that the Government agency there Nufcor had secured a further contract for the sale, starting in 1980, at a "satisfactory" price, of 80 per cent. of the output of a new plant to be erected jointly by the Buffelsfontein and Stilfontein gold-mining companies.

Apart from the trade union opposition to uranium mining in Australia there is also the great outcry from the environmentalists necessitating the submission by the potential producers of detailed environmental impact statements which have to be open for public comment.

To-day is the last day for such comment on that prepared for Pancontinental's big Jabiluka deposit.

Now the Government will have to have its own lengthy think about whatever criticisms have been forthcoming. So the whole future exploitation of Australia's big uranium deposits is still in a melting pot of delay and indecision.

The affair has sparked off a great debate down-under as to who governs, parliament or the unions and the environmental lobby.

On this I can't resist an alliterative quote from Lang Hancock's pungent National Miner: "We have all had enough of preaching parties waffling pompous poppycock from a plethora of pusillanimous parsons and piddling Pandoras . . . the Fraser Government should be severely castigated for its weakness and for not governing as it was elected by the people to do."

As for Pancontinental shares, they linger at $25p and short-term are still a political gamble. But a patient buyer could reap the reward in due course of the burst of strength that would accompany a go-ahead decision which must surely come along one of these days despite all the present confusions.

It is unthinkable that any Australian government would decide to keep such riches in an energy-starved world permanently in the ground.

One of the fascinations of mining share markets for the speculative investor has always been the fast buck—and you've usually got to be fast—that can be made when a company, especially a small one, makes a mineral find or even just has a sniff of one.

Mr. Paul Penna, who heads Canadian gold and silver producer Agnico-Eagle, is someone who believes that the fascination still exists and he has thought up a new way for investors to indulge in it. He is about to launch in that original country of the fast buck, America, a venture called Long Shots Inc.

It has two objectives. Firstly, to search for new minerals resources with gold one of the prime targets and then to develop them either on its own account or sell them for others to exploit. Secondly, to trade in gold, silver and base-metals.

According to Mr. Greene of the Toronto investment firm M. Greene and Associates who will be handling the offer the idea is that instead of taking a narrow shot at one area Long Shots will spread its risks over a broad area.

Mr. Penna is quite frank about the risk element saying that the shares are only for those who can afford to lose their money if the venture should prove unsuccessful in its endeavours.

The principals are reported to be taking up a substantial proportion of the offer which is only of academic interest on this side of the Atlantic. But its reception in the U.S. will be an intriguing pointer to the future ability of the junior explorer to attract sufficient funds to survive in these days of the multi-national giants, rising prospecting costs and the tendency for governments to become increasingly nationalistic in their attitude to domestic mineral resources.

At least Mr. Penna has a reasonable track record in the Canadian exploration field. He is a firm believer that gold will continue to grow in value.

Strong demand for Molybdenum

Shareholders in Selection Trust will probably breathe a sigh of relief now that the 1977 results are out of the way for America's Amax in which the London mining house still has an important revenue-producing stake.

At least the previously announced hefty write-downs of the African copper and nickel interests, although making a bruising impact on the fourth quarter figures, have not affected Amax's distributions which again total $1.75 a share.

And Amax goes forward into 1978 with a strong demand for its principal product molybdenum in marked contrast to that for many other metals. Free market prices are now way ahead of Amax's own quotations which must surely be adjusted upwards in due course.

Meanwhile, Selection Trust at 385p have once again dipped under the 400p level below which it is usually right to buy them. But the stimulus that both Amax and ST really need is a turn-round in metal markets generally and in that for nickel in particular.

INSURANCE

Brokers should offer client choice of motor cover

BY OUR INSURANCE CORRESPONDENT

IN RECENT years there have been a number of surveys dealing with the public attitude to insurers, the cover provided, the rates charged for particular types of risks and the public's assessment of individual insurers' claims service.

But so far as I can recall, until the recent survey of insurance brokers, commissioned by Sentry Insurance, no one had thought to use recognised opinion sampling methods to find out the views of the broking community.

Breaking this new ground, Sentry arranged for Louis Harris International (in consultation with the City University Business School) to conduct a series of personal interviews with directors, partners and other senior staff in 156 insurance broking firms picked out from 9,000-odd who have their names and addresses in the Yellow Page telephone directories: the interviewing was carried out during a six-week period in December and January a year ago.

If the broker is to provide the service that his middle-man position implies, he should surely offer the prospective buyer a choice of insurers, explain the differences in cover and price, in service and reliability between the selected insurers and, if asked, give positive advice.

But the Sentry survey shows that this time last year only 7 per cent. of brokers were using the computerised premium-cover comparison services that are available, while one broker in five, following Henry Ford's dictum about choice of car colour, gave his client no choice of insurer at all.

Probably it is that same one broker in five who admitted that the commission rate paid by insurers influenced his choice—although on this point one suspects that some of the other 80 per cent. were being less than completely honest in answering the question.

So long as there are differences in commission levels then there must be this unsatisfactory conflict between the broker's self-interest and his obligation to provide objective advice to his client.

Most brokers reckon on helping their clients not only with putting forward claims to their chosen insurers, but with making claims for uninsured losses against other motorists and their insurers. Rather more than four out of five brokers provide this service, but some, around one in five, admit to charging their clients a fee.

It is surprising in these stringent financial times that fee-charging for this service is not more wide-spread: the time-cost factor in making a small damage repair and loss-of-use claim against third party insurers must be about £10, which is more than the broker will get by way of commission.

Twenty-seven per cent. of those questioned said they sometimes made charges for other services, for example, documentation on change of vehicle, provision of additional cover notes, arranging for overseas cover.

As insurers themselves have always reckoned to absorb the administration costs of these incidentals, charging only for any extra risk run (except in the handling of motor cycle business), the question the motorist might ask his broker is why such a charge is necessary—unless and until commission remuneration is abolished and the broker has to live by fees alone.

Interesting is the Brokers' majority support for the use of standardised, on-the-spot motor accident report forms, like the "Constat Amiable" used on the Continent and its English equivalent used by General Accident in some parts of this country.

I can only recommend those in favour to try to complete such a form in pouring rain on a busy road while trying to persuade a hostile fellow motorist to do likewise.

The message that continually comes through from the motoring public is that the individual just does not want to pay one penny more for his motor cover than he is actually obliged to do; it is clear that at each renewal a percentage of motorists shop around for cheaper cover while some of those staying with their established insurers positively reduce cover to save premiums.

It is curious therefore that the majority of brokers questioned think that insurers should offer as an optional extra, for additional premium, cover for car hire while the insured car is in for repair following an accident: two-thirds asserted that there is a demand for this kind of cover—all one can say is that this demand is not being communicated by the brokers to insurers.

FT Monthly Survey of Business Opinion

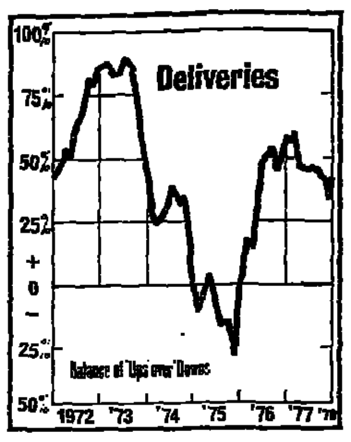
GENERAL OUTLOOK

Optimism about home demand

OPTIMISM ABOUT the general business situation had improved in all three sectors interviewed last month and especially among stores and consumer services companies.

In the latter sector, the improvement was based upon a good Christmas sales season, upon the signs of an upturn in consumer spending during recent months, and the belief that, with rising disposable incomes, this would continue.

In electrical engineering, the increased optimism was based upon evidence of growing investment intentions in industry as well as upon the signs of a recovery in consumer demand.



The stores and consumer services and the cars and consumer durables sectors were also more optimistic about the outlook for the U.K. economy generally.

These hopeful signs were offset, however, by growing worries about export prospects. On balance, electrical engineering companies were expecting exports over the coming 12 months to be higher than last year. But the hardening of sterling exchange rates, the shortage of customer liquidity, delivery times, and local competition in European markets were all cited.

These points were made in the other two sectors, together with the less optimistic outlook for world trade.

GENERAL BUSINESS SITUATION

4 monthly moving total — January 1978

Are you more or less optimistic about your company's prospects than you were four months ago?	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
More optimistic	47	39	40	37	59	77	89
Neutral	36	43	40	46	41	23	11
Less optimistic	15	16	20	17	—	—	—
No answer	2	2	—	—	—	—	—

EXPORT PROSPECTS (Weighted by exports)

4 monthly moving total — January 1978

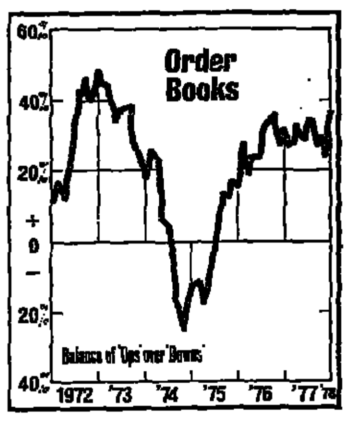
Over the next 12 months exports will be:	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Higher	79	83	86	89	100	76	50
Same	10	10	10	10	—	6	50
Lower	11	7	4	1	—	18	—

ORDERS AND OUTPUT

Retail sales lead the way

THE STEADILY declining trend of "ups" over "downs" for new orders was reversed last month, and at the retail end of business the change of trend is expected to continue.

Most firms in the stores and consumer services sector said they expected a continuing improvement in consumer spending and in consumer confidence over the next four months. They based this on the potential recovery in disposable incomes and particularly in discretionary spending.



In the cars and consumer durables sector progress has been much slower, although some companies detected signs of more money around for certain types of durables.

The trend of new orders had also improved in electrical engineering. This was based upon rising investment intentions as well as upon an improvement in consumer demand.

In this sector, and in stores and consumer services, the rate of deliveries had improved. But few firms had thought the change sufficient to raise their production forecasts for the next 12 months. Indeed, the median output forecast dropped back fractionally last month.

NEW ORDERS

4 monthly moving total — January 1978

The trend of new orders in the last 4 months is:	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Up	48	41	42	45	99	77	64
Same	20	19	17	17	1	23	25
Down	11	16	15	17	—	—	—
No answer	21	24	26	21	—	—	11

PRODUCTION/SALES TURNOVER

4 monthly moving total — January 1978

Those expecting production-sales turnover in the next 12 months to:	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Rise over 20%	5	4	4	4	26	3	9
Rise 15-19%	9	5	5	3	16	50	—
Rise 10-14%	18	18	19	21	55	—	2
Rise 5-9%	16	22	24	27	1	47	24
About the same	46	44	40	37	2	—	65
Fall 5-9%	3	3	3	—	—	—	—
No comments	3	4	5	8	—	—	—

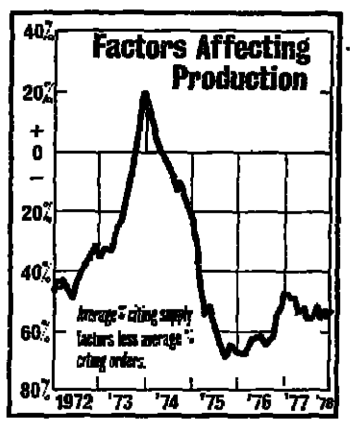
CAPACITY AND STOCKS

In better balance

THE QUICKENING pace of activity in the consumer goods sectors has led to some increase in the number of companies which say they are operating at or above planned rates of capacity working.

It has had an even more marked impact upon expectations about stocks during the next 12 months, especially for stocks of raw materials and to a lesser extent work-in-progress and finished goods stocks.

Even more significantly, perhaps, fewer firms are now saying their stocks are too high and many more are saying they are about right. As a result the all-industry figures for "too high" and "too low" are closer to being in balance than at any time since August 1974.



The recovery in consumer spending has not yet altered the balance between demand and supply constraints as factors affecting current output. The significant features of this table, however, are the relatively large number of mentions of labour disputes and shortage of skilled factory staff, and the growing volume of complaints about difficulties in recruiting or retaining executive staff.

STOCKS

4 monthly moving total — January 1978

	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Raw materials and components over the next 12 months will:							
Increase	43	30	31	23	70	54	76
Stay about the same	48	56	54	54	30	23	24
Decrease	4	7	8	10	—	23	—
No comments	5	7	7	13	—	—	—
Manufactured goods over the next 12 months will:							
Increase	31	23	29	25	46	47	59
Stay about the same	43	48	41	42	53	30	6
Decrease	2	4	5	8	—	23	—
No comments	24	25	25	25	1	—	35

FACTORS CURRENTLY AFFECTING PRODUCTION

4 monthly moving total — January 1978

	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Home orders	82	81	76	77	31	73	96
Export orders	56	60	60	57	28	50	35
Executive staff	30	20	25	13	42	27	35
Skilled factory staff	39	38	36	28	70	23	35
Manual Labour	7	3	4	4	—	—	26
Components	8	8	8	6	3	—	18
Raw materials	9	10	8	10	—	—	18
Production capacity (plant)	11	11	10	17	—	23	46
Finance	—	1	1	1	—	—	—
Others	7	12	13	10	—	—	—
Labour disputes	36	32	29	21	66	47	2
No answer/no factor	5	2	2	2	26	3	4

CAPACITY WORKING

4 monthly moving total — January 1978

	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Above target capacity	12	13	13	16	29	—	1
Planned output	55	52	49	54	70	53	80
Below target capacity	32	34	37	28	1	47	19
No answer	1	1	1	2	—	—	—

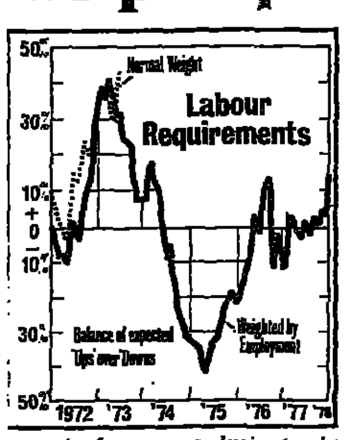
INVESTMENT AND LABOUR

More jobs in prospect

BOTH the electrical engineering and the stores and consumer services sectors were more inclined than they had been last September to say that they expected their employment levels to increase over the next 12 months. As a result, the balance of "ups" over "downs" is now larger than for over a year.

It remains to be seen whether this trend is sustained when other sectors are re-interviewed during the next few months.

What is interesting at this stage is the answers to a question on the factors currently affecting employment levels. This has now been running long enough for an analysis to be made.



In all three-quarters of the firms interviewed in the last four months (weighted by employment) cited difficulties in recruiting staff with suitable skills (28 per cent.), the high cost of labour in relation to profitability (26 per cent.), or the desire of existing staff to work overtime.

Nearly three-fifths mentioned the potential cost of redundancy payments (32 per cent.) or other aspects of employment legislation (25 per cent.). Exactly half cited plans to improve productivity, 40 per cent. mentioned product demand, 17 per cent. mentioned uncertainties about the future, and 12 per cent. cited other factors.

LABOUR REQUIREMENTS (Weighted by employment)

4 monthly moving total — January 1978

Those expecting their labour force over the next 12 months to:	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Increase	25	24	25	23	28	55	26
Stay about the same	64	56	54	55	72	31	72
Decrease	11	20	20	21	—	14	2
No comment	1	—	1	1	—	—	—

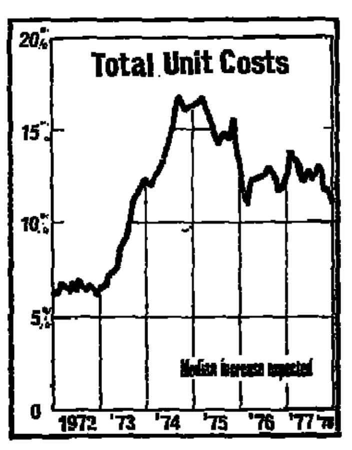
CAPITAL INVESTMENT (Weighted by capital expenditure)

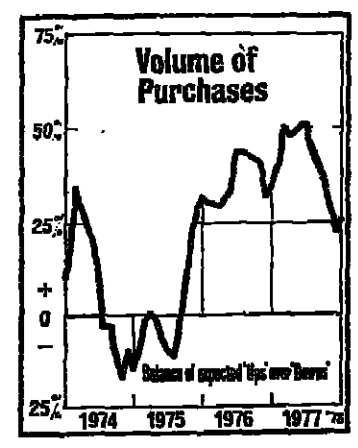
4 monthly moving total — January 1978

Those expecting capital expenditure over the next 12 months to:	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Increase in volume	56	54	53	51	94	60	31
Increase in value but not in volume	11	11	15	10	1	—	18
Stay about the same	16	15	10	14	2	34	51
Decrease	14	14	16	21	3	6	—
No comment	3	6	6	4	—	—	—

COSTS AND PROFIT MARGINS

Inflation rate is falling





THE INFLATION OUTLOOK continues to be not unhopeful. The median forecast increase for wage costs over the coming 12 months appears to have peaked out at about 12½ per cent., while the median forecasts for the rise in total unit costs and in output prices over the same period have continued to decline, with both reaching 11 per cent. last month.

Competition—and, in some cases, the activities of the Price Commission—is still the dominating factor for prices, however. Expectations about profit margins in the next 12 months have continued to worsen, with the "ups" now virtually in balance with the "downs" for the first time in almost a year.

The falling trend for return on capital employed was reversed last month however. Whereas views on profit margins are based upon the next 12 months, the question about earnings relates to the current financial year. Earnings are of course also affected by changes in turnover.

These surveys, which are carried out for the Financial Times by the Taylor Nelson Group, are based upon extensive interviews with top executives.

Three sectors and some 30 companies are covered in turn every month. They are drawn from a sample based upon the FT-Actuaries Index, which accounts for about 60 per cent. of the turnover of all public companies. The weighting is by market capitalisation, save where an alternative method of weighting is cited.

The all-industry figures are four-monthly moving totals, covering some 120 companies in 11 industrial sectors (mechanical engineering is surveyed every second month). Complete tables can be purchased from Taylor Nelson and Associates.

COSTS

4 monthly moving total — January 1978

	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Wages rise by:							
5-9%	6	8	8	11	3	3	2
10-14%	74	70	70	57	96	97	52
15-19%	11	14	15	19	1	—	18
20-24%	—	—	1	2	—	—	—
25-29%	—	—	—	1	—	—	—
No answer	9	8	6	10	—	—	28
Unit cost rise by:							
0-4%	5	3	4	5	—	—	9
5-9%	22	12	11	8	72	23	37
10-14%	60	64	64	52	27	77	42
15-19%	5	8	8	19	1	—	9
20-24%	—	—	—	3	—	—	—
Same	2	2	2	1	—	—	—
Decrease	1	1	1	—	—	—	—
No answer	5	10	10	12	—	—	3

PROFIT MARGINS

4 monthly moving total — January 1978

Those expecting profit margins over the next 12 months to:	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Improve	22	27	29	35	27	53	13
Remain the same	55	46	45	45	72	47	60
Contract	21	22	22	15	1	—	18
No comment	2	5	4	5	—	—	9

Businessman's Diary

U.K. TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	International Spring Fair (cl. Feb. 9)	Nat. Exbn. Centre, B'ham.
Feb. 8—10	Microsystems 78 Exbn. & Conference	West Centre Hotel, S.W.6
Feb. 12—14	Swimming Pool & Allied Trades Exbn.	Metropole Centre, Brighton
Feb. 14—16	National Office Reprographic Exbn.	Wembley Conf. Centre
Feb. 14—16	Licensed Hotel Catering Exbn.	Metropole Centre, Brighton
Feb. 15—16	EIA Engineering Exhibition	Portsmouth
Feb. 19—23	International Knitwear Fair	Earls Court
Feb. 19—23	Int. Men's & Boys' Wear Exbn.	Earls Court
Feb. 20—23	Spring Floorcoverings Exhibition	Metropole Centre, Brighton
Feb. 20—24	Furniture Production Exhibition	Nat. Exbn. Centre, B'ham.
Feb. 21—23	British Growers Look Ahead Exbn. and Conf.	Harrogate
Mar. 5—10	Oceanological Equip. & Services Exbn.	Metropole Centre, Brighton
Mar. 6—9	National Carpet Fair	Blackpool
Mar. 7—Apr. 1	Daily Mail Ideal Home Exhibition	Olympia

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Current	Knitting Industries Exhibition (cl. Feb. 7)	Paris
Current	European Men's Wear Show (cl. Feb. 7)	Paris
Feb. 6—10	British Trade Fair	Abidjan
Feb. 7—11	Engineering & Industrial Equipment Exbn.	Dublin
Feb. 11—15	Int. Confectionery, Chocolate, Biscuit Exbn.	Paris
Feb. 13—17	Israel Fashion Week	Tel Aviv
Feb. 13—18	Int. Machine Tool & Foundry Exbn.	Johannesburg
Feb. 14—18	Business and Micro-Graphic Equipment Exbn.	Tokyo
Feb. 19—21	International Hardware Fair	Cologne
Feb. 21—24	Offshore South-East Asia Show	Singapore
Feb. 25—Mar. [illegible]	International Spring Fair	Frankfurt
Feb. 26—Mar. [illegible]	Middle East Transport Exbn. and Conf.	Dubai
Feb. 28—Mar. 3	Int. Tunnelling Industries Exbn. & Conf.	Basle
Mar. 2—12	International Motor Show	Geneva
Mar. 5—12	International Agricultural Exhibition	Paris
Mar. 6—11	British Industrial Exhibition	Kowloon
Mar. 6—12	International Audio Exhibition	Paris
Mar. 7—10	Powder Technology & Bulk Solids Exbn.	Basle

BUSINESS AND MANAGEMENT CONFERENCES

Feb. 7—9	Executant: Producer Risk Appraisal	Russell Hotel, W.C.1
Feb. 8—9	Imperial College: Management Science in Distribution	Exhibition Road, S.W.7
Feb. 8—10	London Chamber of Commerce and Industry: Social Service and Infrastructural Developments in Oil Rich States	Farnham Castle
Feb. 13—17	Kepner - Tregoe: Decision Making for Senior Management	Bath
Feb. 13—17	Abraxas: Synectics—Innovative Skills	68, Churchway, N.W.1
Feb. 14	Society for Long Range Planning: Self-Denial To-day for Prosperity To-morrow—Crisis of Choice	15, Belgrave Sq., S.W.1
Feb. 15—16	Oyez IBC: International Tendering	Inter-Continental Hotel, W.1
Feb. 15—16	Management Training Consultants: The Skills of Interviewing	Leicester
Feb. 16	Building Materials Export Group: Expanding Export Markets for the U.K. Construction Industry	Cavendish Centre, W.1
Feb. 17	Inbucon: The Practical Implications of the Consumer Credit Act	Hilton Hotel, W.1
Feb. 20—21	Assn. Conf. Execs.: Conference Expertise	Royal Lancaster Hotel, W.2
Feb. 21	Henley Centre for Forecasting: The Future of the U.K. Property Markets	Bowater Cinema, S.W.1
Feb. 21—24	Bradford Univ.: Financial Control of R & D	Bradford
Feb. 22	Institute of Personnel Management: Employment Law in 1978	Manchester
Feb. 22—23	Financial Times: Business with Spain	Madrid
Feb. 23—24	European Study Conferences: EEC Competition Law	Royal Lancaster Hotel, W.2
Feb. 24	Thames Polytechnic: Business Trends in France	Dartford
Feb. 26—Mar. 2	British Transport Staff College: Finance & Accounting for Management	Woking
Feb. 27—Mar. 2	ICA: Personal Income Tax course	Grand Htl., Eastbourne
Feb. 27—Mar. 10	P-E Consulting Group: Production Engineering	Training Centre, Egham
Feb. 27—28	Financial Times, The Banker, Investors Chronicle: World Banking in 1978	Grosvenor House, W.1
Feb. 27—Mar. 1	AMR International: Creating Business Growth in Europe	Royal Westminster Htl., S.W.1
Feb. 28	Institute of Directors Annual Convention: The State & the Individual	Royal Albert Hall, S.W.7
Mar. 2	McGraw-Hill: Corporate Fraud	Royal Garden Hotel, W.8
Mar. 6—8	World Re-cycling Conference	Basle
Mar. 6—10	Urwick: Project Management	Slough
Mar. 6—10	Department of Industry: Flow Measurement	Glasgow
Mar. 7—8	Lenofern: Cost-Eff. Print in Marketing	Inst. Marine Eng., E.C.3

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TO-DAY

COMPANY MEETING—
Rix (Oliver), Bath, 12
THIRTY-THREE

BOARD MEETINGS—
Final:
UC Investments
Interim:
Vibroplant

DIVIDEND & INTEREST PAYMENTS—
AD International Ln. £4.4409
Anderson Strathclyde 1p
Bamfords 0.88p
Bassett (Geo.) 1.464556p (inc. supp. distbn. of 0.062056p o/a yr. ended 31/3/77)
Boardman (K. O.) Intl. 0.4025p
British American and General Trust Ln. 2pc
Central Mfg. and Trading 1.353381p
English and New York Trust Ln. 2¼pc
International Distillers and Vintners Ln. 4¼pc
International Paint 0.68p
Keystone Invest. 4.25p
May and Hassell 0.96748p (inc. supp. distbn. of 0.02928p o/a yr. ended 31/3/77)
New Throgmorton Trust Inc. shs. Ln. 3½pc
Steel and Barnett Pf. 6pc
Warner Holidays Ord. and A 0.35p
Webster (Samuel) Db. 3¾pc
Whitbread Db. 3½pc

TO-MORROW

COMPANY MEETINGS—
Kelsey Industries, Hemel Hempstead, 11
Tomkinsons, Kidderminster, 12

BOARD MEETINGS—
Finals:
Claverhouse Invest. Trust
Imperial Group
Interims:
Dowty
Unitech

DIVIDEND & INTEREST PAYMENTS—
Beechwood Construction 0.5p
Burroughs Corp. 26 cts.
Continental and Ind. Trust 2.25p
Doornfontein Gold Mining 11.98642p
EMI Ln. 8½pc 1981 4¼pc
East Driefontein Gold Mining 25.77080p
Hinton (Amos) Ln. 3½pc
Holyrood Rubber 7p
Hongkong (Selangor) Rubber 1.32p
Killinghall Rubber 10.7p
Kloof Gold Mining 8.98981p
Libanon Gold Mining 23.97284p
Maple Ln. 5¼pc
Marling Inds. 0.5p
Midland Educational 1.5p
Owen and Robinson A and B Ord. 6p
Scottish Invest. Trust 1.66p
Tex Abrasives 0.75p
Trafalgar House 2.62p
Trustees Corp. 1.5p
Ventersdorp Gold Mining 2.99660p
Vlakfontein Gold Mining 8.98981p
West Driefontein Gold Mining 80.90833p

WEDNESDAY, FEBRUARY 8

COMPANY MEETINGS—
Burton Group, Leeds, 12
Lloyds and Scottish, Hyde Park Hotel, S.W., 12
Redfearn National Glass, York, 12

BOARD MEETINGS—
Finals:
English and New York Trust
Glass and Metal
Hirst and Mallinson
Trust Houses Forte
Interims:
Decca
Mining Supplies
Priest (Benjamin)
UDT
Wiggins Construct

DIVIDEND & INTEREST PAYMENTS—
Baggeridge Brick 2.33475p
Barnsley 12pcBds. Red. 8/2/78 £6.1973
Bassetlaw 12pcBds. Red. 8/2/78 £6.1973
Blackburn 12pcBds. Red. 8/2/78 £6.1973
Breckland 12pcBds. Red. 8/2/78 £6.1973
Canterbury 12pcBds. Red. 8/2/78 £6.1973
Cardiff Malting 0.8p
Chester-le-Street 12pcBds. Red. 8/2/78 £6.1973
Cumnock and Doon Valley 12pcBds. Red. 8/2/78 £6.1973
Daventry 12pcBds. Red. 8/2/78 £6.1973
Doncaster 12pcBds. Red. 8/2/78 £6.1973
East Lothian 12pcBds. Red. 8/2/78 £6.1973
Gateshead 12pcBds. Red. 8/2/78 £6.1973
Gwynedd 12pcBds. Red. 8/2/78 £6.1973
Hall Bros. Steamship Ord. and A Ord. 2.64p. 5pcPfg.Pf. 7pc
Kelsey Inds. 1.98475p
Kerrier 12pcBds. Red. 8/2/78 £6.1973
Kyle and Carrick 12pcBds. Red. 8/2/78 £6.1973
London County 6pc 75-78 3pc
North Warwickshire 12pcBds. Red. 8/2/78 £6.1973
Nottingham 12pcBds. Red. 8/2/78 £6.1973
Perth and Kinross 12pcBds. Red. 8/2/78 £6.1973
Phoenix Timber 2p
Plymouth 12pcBds. Red. 8/2/78 £6.1973
Redbridge 12pcBds. Red. 8/2/78 £6.1973
Reed Intl. Db. 3⅝pc (87-92), Ln. 5pc
Reigate and Banstead 12pcBds. Red. 8/2/78 £6.1973
Sedgemoor 12pcBds. Red. 8/2/78 £6.1973
Somic 0.8662p
South Tyneside 12pcBds. Red. 8/2/78 £6.1973
Taff-Ely 12pcBds. Red. 8/2/78 £6.1973
Tamworth 12pcBds. Red. 8/2/78 £6.1973
Tayside 12pcBds. Red. 8/2/78 £6.1973
Tunbridge Wells 12pcBds. Red. 8/2/78 £6.1973
Waltham Forest 12pcBds. Red. 8/2/78 £6.1973
West Lancashire 12pcBds. Red. 8/2/78 £6.1973
Wigan 12pcBds. Red. 8/2/78 £6.1973

THURSDAY, FEBRUARY 9

COMPANY MEETINGS—
Arbour Court Invs., 5, High Timber Street, E.C., 12
Guinness (Arthur), Park Royal Brewery, N.W., 2.45
Hawkins and Tipson, Grosvenor House Hotel, W., 5.30
Serck, Birmingham, 12.30

BOARD MEETINGS—
Finals:
Aaronson
Evode
Scottish Agricultural Inds.
Tace
Tribune Investment Trust
Interims:
Benn Bros.
Christie-Tyler
ML Holdings
Morgan Edwards
Ransome (William)
Wood (S. W.)

DIVIDEND & INTEREST PAYMENTS—
Buffelsfontein Gold Mining 60 cts.
Grootvlei Proprietary Mines 8.32093p
Highgate Optical and Indl. 0.627p
Illingworth Morris Ord. and A 0.5p
Lothian 13pcBds. Red. 7/2/79 6½pc
Marievale Cons. Mines 14.26444p
North Midland Construction 0.65p
Redfearn National Glass 9.291p
Sobranie Ord. and N.-V. Ord. 0.66p
Stilfontein Gold Mining 11 cts.
Sutcliffe Speakman 1.3164p
West Rand Cons. Mines 10 cts.

FRIDAY, FEBRUARY 10

COMPANY MEETINGS—
Crystalate, Great Eastern Hotel, E.C., 11.30
Lee (Arthur), Sheffield, 12.30

DIVIDEND & INTEREST PAYMENTS—
Adur 8¼pcBds. Red. 16/8/78 4⅛pc
American Express 35 cts.
Austin (E.) 1.2775p
Barking 8¼pcBds. Red. 16/8/78 4⅛pc
British Tar Products 0.5p
Cambridge 8¼pcBds. Red. 16/8/78 4⅛pc
Cattles 1p
Cawoods 0.972824p
Comet Radiovision 1.89924p
Corp. of London 6½pc 75-78 3¼pc
Coventry 8¼pcBds. Red. 16/8/78 4⅛pc
Dacorum 8¼pcBds. Red. 16/8/78 4⅛pc
Daventry 8¼pcBds. Red. 16/8/78 4⅛pc
East Stafford 8¼pcBds. Red. 16/8/78 4⅛pc
Ellesmere Port and Neston 8¼pcBds. Red. 16/8/78 4⅛pc
English and Overseas Invs. 0.35p
Gillingham 11⅜pcBds. Red. 6/8/80 5¹¹⁄₁₆pc
Greater London 12½pc 1983 6¼pc
Greene King 2.677p
Guinness (Arthur) 4.6387p. Lns. 3½ and 5pc
Hackney 8¼pcBds. Red. 16/8/78 4⅛pc
Hawkins and Tipson 2.993p
Hinkley and Bosworth 8¼pcBds. Red. 16/8/78 4⅛pc
Johannesburg Cons. Invest. 40 cts.
Knowsley 8¼pcBds. Red. 16/8/78 4⅛pc
Lancaster 8¼pcBds. Red. 16/8/78 4⅛pc
Llanelli 8¼pcBds. Red. 16/8/78 4⅛pc
Lloyds and Scottish 2.4065p
Malaysia 7½pc 78-82 3¾pc
Manchester 8¼pcBds. Red. 16/8/78 4⅛pc
Newcastle 12¼pcBds. Red. 5/8/81 6⅛pc
North East Derbyshire 8¼pcBds. Red. 16/8/78 4⅛pc
North Wiltshire 8¼pcBds. Red. 16/8/78 4⅛pc
Northavon 8¼pcBds. Red. 16/8/78 4⅛pc
Nuneaton 8¼pcBds. Red. 16/8/78 4⅛pc
Salford 8¼pcBds. Red. 16/8/78 4⅛pc
Serck 3.94p
Slough 8¼pcBds. Red. 16/8/78 4⅛pc
South Shropshire 8¼pcBds. Red. 16/8/78 4⅛pc
Southwark 8¼pcBds. Red. 16/8/78 4⅛pc
Speratt (C. A.) 14.7p
Test Valley 8¼pcBds. Red. 16/8/78 4⅛pc
Tonbridge and Malling 8¼pcBds. Red. 16/8/78 4⅛pc
Trans-Oceanic Trust 3.5p
Tyne and Wear 8¼pcBds. Red. 16/8/78 4⅛pc
UKO Intl. 2.93p
United British Secs. Trust 1.25p
Updown Invest. 1.75p
West Wiltshire 8¼pcBds. Red. 16/8/78 4⅛pc
Wrekin 8¼pcBds. Red. 16/8/78 4⅛pc

SATURDAY, FEBRUARY 11

DIVIDEND & INTEREST PAYMENTS—
Agricultural Mortgage Corp. 13⅜pcBds. Red. 15/2/80 6¹¹⁄₁₆pc. 13⅛pcBds. Red. 9/2/79 6⁹⁄₁₆pc
Caledonian Trust 0.6p
Paterson (R.) 1.0375p

APPOINTMENTS

G. Dowson on Cambridge Communication Board

Mr. Graham R. Dowson has been appointed to the Board of CAMBRIDGE COMMUNICATION. Formerly chief executive of the Rank Organisation, Mr. Dowson is chairman of three companies, including Erskine House Investments, and a director of three others.

★

Sir Frederick Catherwood, a vice-president (and former chairman) of the BRITISH INSTITUTE OF MANAGEMENT, has been appointed chairman of its Economic and Social Affairs Committee. He succeeds Mr. David Hardy, formerly finance director, Tate and Lyle, who has moved to Liverpool to take up a new appointment with Ocean Transport and Trading Group. Sir Frederick is chairman of the British Overseas Trade Board and of Mallinson Denny. He is also a director of John Laing and Son (of which he was managing director until 1974), and of the Goodyear Tyre and Rubber Company (GB). He was director-general of the National Economic Development Office from 1966-71.

★

Mr. C. T. Crook has been appointed director of personnel of PHILIPS INDUSTRIES from May 1, in succession to Mr. L. D. Cowan who, as already announced, will be joining the Board of Unigate. Mr. Crook has been group personnel manager (industrial operations) since 1975.

★

Mr. T. McMillan has joined the Board of COUTTS AND COMPANY.

★

Mr. H. N. Raine, who has been appointed a non-executive director of STOTHERT AND PITT, is currently chairman of the Technician Education Council. Mr. Jocelyn Harris, a merchant banker with Rea Brothers, has been made a non-executive director.

★

RIVER THAMES SHIPREPAIRS, the company formed as a result of the merger of R. and H. Green and Silley Weir and the London Graving Dock Company, has announced that Mr. R. J. Silley has relinquished all his directorships in the group.

★

On the retirement of Dr. E. R. S. Winter from the Board of JOHN AND E. STURGE, Dr. K. J. Hill has been appointed managing director. Dr. B. Burrows, formerly manager of European planning and development for Gulf Oil Chemicals, has joined the company as commercial director.

★

Mr. R. N. Gray and Captain M. A. Mann have been appointed directors of NOBLE DENTON AND ASSOCIATES.

★

Subsequent to the retirement of Mr. Frank Stevenson from HANSON TRAVEL SERVICE, Mr. J. Ramsbotham has become managing director. Mr. Ramsbotham joined Hanson's about 15 months ago from American Express.

★

Mr. R. C. Wurtzburg has been appointed to the board of HULL, BLYTH AND CO. as managing director, succeeding Mr. Francis Plumbe, who remains chairman. Mr. K. V. E. Clarey and Mr. G. J. Eagle have also joined the Board.

★

Mr. N. E. Foster, a director of BARCLAYS BANK U.K. MANAGEMENT, has moved from his present executive post of senior local director of London Eastern district to the Lombard Street district to be an executive local director and director, City corporate finance.

★

Mr. David A. V. Carter has been appointed financial director of W. G. HILL AND SON (INSURANCE), a member of the Central and Sheerwood Group, in addition to his present appointment as secretary. Mr. Peter S. Keeping has been made sales director. Mr. David R. E. Merchant, who has become director responsible for the Midlands regional office in Birmingham, will continue his London servicing duties as account director.

★

Mr. A. C. Barker has been appointed a director of ALLIANCE INVESTMENT COMPANY. Mr. Barker will continue to act as manager of the company.

★

Mr. Tom Gethin, who relinquished his post as managing director of SKH on January 1, will retire as an executive director of the company in June. He has been succeeded as managing director by Mr. C. J. E. Roche. Mr. Gethin has been with the SKH parent group, Rubery Owen Holdings, for 43 years and with SKH since its formation in 1956. Mr. Roche, who joined SKH as a graduate apprentice in 1965, was appointed sales director in 1975.

★

Mr. P. C. Moseley has been appointed marketing director designate of C. SHIPPAM. He will take over as marketing director when Mr. C. E. Turner retires later this year. Since 1967, Mr. Moseley has worked in the marketing department of Quaker Oats, and recently has been manager—marketing services.

★

C. T. BOWRING AND COMPANY has made the following appointments: Mr. R. V. Craig is now chairman of C. T. Bowring (London) in place of Mr. E. J. Doney, who will continue as chief executive until his retirement on April 1. Shipton Insurance Services: Mr. R. Crisp and Mr. I. J. Griffiths become directors. Baillieu Bowring (Developments) Pty. Australia: Mr. Peter C. Anderson appointed deputy managing director responsible for new business development in Victoria, Australia. R. Martin, Son and Co.: Mr. T. McGrath, Mr. A. D. Laverty and Mr. E. R. Reilly have been made directors. C. T. Bowring Underwriting Management: Mr. C. J. P. Willis becomes financial controller and remains chief accountant of Crusader Insurance.

★

Mr. J. S. Gilbert and Mr. J. M. Payne have been appointed directors of BLAND PAYNE HOLDINGS. Mr. Gilbert is chairman of the oil and cargo divisions, Bland Payne (Marine) and Mr. Payne is deputy chairman of Bland Payne Reinsurance Brokers.

★

Mr. A. J. W. Lewis has resigned from the Board of COURTAULDS KNITWEAR to devote his full time as director of marketing services, consumer products group.

★

Mr. Peter Heyward has been appointed a director of VAUX BREWERIES. He joined the company in 1970 and has been in charge of all the group's marketing. Mr. Timothy Dudley-Smith has been made a director of Vaux Breweries (England).

Parliament this week

TO-DAY

COMMONS—Private members' motions. Motion on sound broadcasting of Commons. Motion on third report of Committee of Privileges.

SELECT COMMITTEES—Expenditure, general sub-committee. Subject: Government expenditure plans 1978-79 to 1981-82. Witness: Mr. Joel Barnett, Chief Secretary to Treasury. 4.15 p.m. Room 8. Expenditure, Education, Arts and Home Office Sub-committee. Subject: The Prison Service. Witnesses: prison and Borstal Governors. 4.15 p.m. Room 13.

TO-MORROW

COMMONS—Opposition debate on the misuse of Government's discretionary powers ("blacklisting" of companies which break the 10 per cent. pay guidelines). Shipbuilding (Redundancy Payments) Bill, remaining stages.

LORDS—Suppression of Terrorism Bill, Second Reading. Representation of the People (Amend) Regs. 1978. Debate on EEC reports on research and development policy.

SELECT COMMITTEES—Nationalised Industries, sub-committee A. Subject: Scottish Transport Group report and accounts. Witness: Scottish Transport Group. 4 p.m. Room 8.

WEDNESDAY

COMMONS — European Assembly Elections Bill. Committee stage.

LORDS — Debate on use of North Sea oil. Debate on firemen's strike.

SELECT COMMITTEES — Science and Technology, General Purposes sub-committee. Subject: Durability and efficiency of electric lamps. Witness: Department of Industry. 10.30 a.m. Room 16. Nationalised Industries, sub-committee B. Subject: British Gas Corporation report and accounts. Witness: British Gas Corporation. 10.45 a.m. Room 8. Overseas Development Committee. Subject: Renegotiation of Lome Convention. Witness: Mr. Matthew McQueen, Department of Economics, Reading University. 4.15 p.m. Room 6. Expenditure, Social Services and Employment sub-committee. Subject: Employment and Training. Witnesses: Department of Education and Science and Scottish Office. 4.30 p.m. Room 15.

THURSDAY

COMMONS — Inner Urban Areas Bill. Second reading. Motion on Medicines. Exemptions from Restrictions on the Retail Sale of Veterinary Drugs Order.

LORDS—Education (Northern Ireland) Bill, report. Slaughter of Poultry Act 1967. Extension Order, 1978. Debate on the British helicopter industry. Debate on Option Mortgage Scheme.

FRIDAY

COMMONS—Private Members' Bills.

Strikes cut increase in airport traffic

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

PASSENGER TRAFFIC at the seven airports controlled by the British Airports Authority, comprising Heathrow, Gatwick, Prestwick, Glasgow, Stansted, Edinburgh and Aberdeen, rose by only 3 per cent. last year, largely as a result of industrial disputes.

Problems which cut the overall volume of air traffice included the strike of air traffic control assistants, which lasted from late August until early November and the reduction in British Airways flights after withdrawal of a large part of its Trident Three fleet after cracks discovered in the wings of these aircraft.

Had these and other industrial disruptions not taken place, British Airports Authority estimates that traffic at its airports overall would have risen by 7.7 per cent. Heathrow activities would have risen by 6 per cent. and those at Gatwick by 16 per cent.

For the year as a whole, the seven airports handled 34.4m. passengers, with Heathrow handling 23.4m. and Gatwick 6.6m. Cargo traffic at the seven airports remained strong, rising by 9.6 per cent. to 607,000 metric tonnes.

HIGHVELD STEEL AND VANADIUM CORPORATION LIMITED

(Incorporated in the Republic of South Africa)

INTERIM REPORT FOR THE HALF YEAR ENDED DECEMBER 31 1977 AND DIVIDEND NOTICE

	Six months ended 31.12.77	Six months ended 31.12.76	Year ended 30.6.77
PRODUCTION (Metric tons)			
Hot Metal—Total	345 426	270 308	598 679
Continuously Cast Blocks			
For rolling	256 243	189 582	387 464
For sale	85 475	91 141	209 334
Total	341 718	280 723	596 798
Structural Mill Products			
Billets	4 797	5 957	18 707
Sections	179 139	169 907	331 472
Total	183 936	175 864	350 179
Plate Mill Product			
Total	40 655	—	—
Vanadium Slag	27 906	22 455	48 518
Manganese Alloys	32 428	46 456	88 655
GROUP FINANCIAL RESULTS (R000)			
Turnover	78 772	72 219	144 450
Profit before taxation	13 615	17 220	33 107
Less: Provision for deferred tax	3 400	6 959	11 041
	10 215	10 261	22 066
Less: Minority interest	423	690	1 326
Attributable profit	9 792	9 571	20 740
Taxed earnings per share—cents	14.4	14.1	30.6

The unaudited consolidated profit of the corporation and its subsidiaries for the half year ended December 31 1977, before providing for deferred tax and minority interests, but *after* providing for interest charges of R2 632 000 and depreciation of R6 100 000, amounted to R13 615 000.

As forecast in the annual report, due to the commissioning of the new plate mill, further investment allowances became available to the corporation and as a result the charge for deferred tax in respect of the half year is below that for the same period last year. After the provision of R3 400 000 for deferred tax and the deduction of minority interests of R423 000 the attributable profit for the six months of R9 792 000 was at the same level as the corresponding period last year.

In view of these results the Board has decided to maintain the interim dividend of 5 cents per share payable in April 1978 at the cost of R3 388 000.

Despite the fact that apparent steel consumption in 1977 for the world, including the communist bloc, was equal to the third best on record at 673 000 000 tons, the steel industries of the major industrialised countries continue to run well below capacity. Some 64 500 000 tons of new steel capacity has been commissioned in the free world alone since the 1973/4 boom period and a large proportion of this new capacity has been built in third world countries, traditional export markets for the industrialised countries. There is, furthermore, a tendency for the steel industries of the communist bloc and the third world to run at capacity and to export to the industrialised countries tonnages which are surplus to their domestic requirements, thus compounding the oversupply situation in these markets. This is the reason for the strong protectionist lobbies that have grown in Europe and North America. As mentioned in the corporation's annual report, South Africa's steel exports to the E.E.C. are on a quota basis and the current moves in the United States in respect of 'trigger prices' must affect South Africa's steel exports to North America.

With regard to the domestic steel situation, it appears that the downturn may have levelled off, but there is unlikely to be any significant improvement in the foreseeable future. The successful commissioning of the plate mill in August has enabled Highveld to participate in a new sector of the local market as a second supplier and this has resulted in an increase in domestic sales with a corresponding reduction in exports of steel semis.

The domestic steel price increase effective from January 1 1978, which was lower than that requested by the industry, will make a contribution towards meeting the increased costs which have been experienced since the last increase in December 1976 but is insufficient to restore profit margins to previous levels. Continuing high inflation, particularly in power and railage costs, has already had an adverse effect on the export performance of the South African steel and ferro-alloy industries.

Demand for vanadium weakened considerably during the period and as a result only one of the eight roasting units at the Vantra division is in operation. This reduction in output coupled with other producers' cutbacks will correct the supply-demand imbalance.

The world ferro-alloy industry is in a similar situation to that of the world steel industry with regard to over-capacity. Transalloys' export sales of manganese ferro-alloys were consequently adversely affected with total sales 24 per cent. lower for the half year compared with the same period last year. Domestic sales have been maintained but as a result of the drop in exports, only two of the five furnaces have been in operation for most of the period.

During the six months, the major part of the flat product expansion was completed with the successful commissioning of the plate mill and the eighth pre-reduction kiln. All remaining facilities should be brought into operation in the second half of the year.

Current market conditions make financial forecasting difficult, but it is expected that the corporation will maintain a similar level of profit after tax for the second half of the year.

SHARE CAPITAL

The share capital was increased during the half year under review by the issue of 42 500 shares to participants under the corporation's share incentive scheme. At December 31 1977 the issued share capital was R67 763 270.

CAPITAL EXPENDITURE

The total commitment in respect of capital expenditure was R4 688 000 at December 31 1977, compared with R42 296 000 at December 31 1976.

DIVIDEND

The final dividend of 10 cents a share in respect of the financial year ended June 30 1977 was declared on August 5 1977 and paid to shareholders on October 6 1977.

DECLARATION OF DIVIDEND No. 7 (INTERIM)

Notice is hereby given that dividend No. 7 of 5 cents a share, being the interim dividend in respect of the financial year ending on June 30 1978, has been declared payable to shareholders registered in the books of the corporation at the close of business on February 24 1978 (1977—dividend No. 5 (interim) of 5 cents a share).

The dividend is declared in the currency of the Republic of South Africa. Dividend warrants will be posted from the office of the transfer secretaries on or about April 6 1978.

Any change of address or dividend instruction to apply to this dividend must be received by the corporation's transfer secretaries not later than February 24 1978. Shareholders must, where necessary, have obtained the approval of the South African Exchange Control authorities, and, if applicable, the approval of any other exchange control authorities having jurisdiction in respect of such instructions.

The share transfer register and register of members will be closed from February 25 1978 to March 12 1978, both days included.

In terms of the Republic of South Africa Income Tax Act, 1962, as amended, non-resident shareholders' tax will be deducted by the corporation from dividends payable to those shareholders whose addresses in the share register are outside the Republic. The effective rate of non-resident shareholders' tax is 15 per cent.

The abridged unaudited consolidated income statement of the corporation and its subsidiaries for the half year ended December 31 1977 is contained in the accompanying interim report of the corporation for that period.

For and on behalf of the Board

W. G. Boustred (Chairman) } Directors
L. Boyd }

Witbank.
February 3 1978.

Transfer Secretaries:
Consolidated Share Registrars Limited,
62 Marshall Street, Johannesburg 2001,
(P.O. Box 61051 Marshalltown 2107)

Registered Office:
Portion 29 of the farm Schoongezicht
No. 308 J.S. District Witbank,
(P.O. Box 111, Witbank 1935)

OVERSEAS MARKETS

EUROBONDS

BY FRANCIS GHILES

Sterling bonds in the limelight

BORROWING outside the dollar sector is the keynote of the bond market at present. Although the dollar secondary market was firmer last week, only two new issues were announced, the floating rate note for Banque Nationale de Paris and, on Friday, the New Zealand Forest Products \$25m. bond.

In London, sterling bonds certainly stole the limelight. Two new issues were announced and more were due at the end of the week but apparently shelved. One banker commented that to kill off the market twice in two months was risky: "Resurrection only happens once," he said.

At its pricing on Wednesday, the Rowntree Mackintosh bond was increased from £15m. It opened strongly in the secondary market, only just below its offering price, being quoted on Thursday morning at 99½-100. But when rumours of a new sterling issue started spreading at lunchtime, it fell back to 99¼-¾ and finished the week at 99¾-99⅞.

A week pound on Friday, combined with rumours that one and possibly more further sterling issues might be announced over the week-end pushed the prices down by a further quarter of a point (although some issues held up well—Fisons, for instance began the week at 100½ and closed on Friday at 101¼).

The biggest question overhanging the sterling sector now is the possibility that the unofficial co-ordination between the lead managing banks on the order and speed with which issues are brought might not prove sufficient to prevent the market being swamped again.

When the market first opened last November there was no question but that the lead managers concerned and the Bank of England—despite its queue system in the domestic market—did not want to institute a queue. The first pile-up caused change in a few minds, though not at the Bank.

System working

However if widespread market reports are anywhere close to the truth it seems that collision was only just avoided when Hambros brought out its Sears offering on Wednesday and that further issues were also almost announced on Friday.

So far the system appears to be working—just. However, doubtless the Bank is watching the situation carefully. It would not be surprising if it were to be more prepared to introduce a queueing system even in the face of opposition from some issuing houses if oversupply of sterling bonds builds up again.

The deutschemark sector remained active throughout the week with many dealers quoting prices on Friday between half a point and a full point above Monday's levels. Investors were as usual, however, keener on getting new paper than chasing opportunities in the secondary market.

Much of the buying which developed as the week was on was based on currency considerations, not least from France after the bout of weakness suffered by the French franc in the middle of the week. The strength of demand for new paper was reflected in the increase of the Argentina issue from the initial DM100m. The indicated coupon was cut by ¼ per cent. and it is expected to be priced at 99½. The New Zealand bond finally came out: it has been increased from an initial DM200m. DeutscheBank also announced two other issues, one from Eurofima and one for Nrcem, the Norwegian cement company.

In addition to the New Zealand bond, Commerzbank is expected to announce a DM150m. issue for the Brazilian Banco Nacional de Desenvolvimiento Economico at the end of the week. The 8¼ per cent. indicated coupon on the Escom issue is a quarter of a point above the coupon of a private placement of similar size and same maturity for the same borrower arranged in this market only last month.

One dollar bond

Bayerische Landesbank is expected to arrange a DM30-40m. private placement for Groupement de l'Industrie Siderurgique to be announced next week.

Only one straight dollar bond was announced last week but it has an interesting feature in that it is it combined with a medium term loan for the same borrower. New Zealand Forest Products, which has not been in the bond market before is raising \$25m. for eight years in the form of a bond. At the same time it is raising a \$50m. loan with a 5¾ year maturity and a spread over the interbank rate of ¾ per cent. This spread is higher than the one New Zealand as a sovereign borrower can boast (⅝ per cent.) and the maturity shorter but New Zealand Forest Products is a private company and there is no state guarantee. The \$70m. raised overall will help refinance a \$70m. medium term loan raised by the same borrower in 1975.

The secondary market in the dollar sector firmed up last week but turnover was not heavy. Long Term Credit Bank of Japan had its coupon cut twice, first by ⅛ per cent then by ⅛ per cent.

MEDIUM-TERM

Denmark raises \$500m. loan

By Francis Ghiles and John Evans

DENMARK is raising \$500m. for seven or eight years on a spread above the interbank rate of ⅝%. Lead manager of the group of banks arranging the loan is Manufacturers Hanover. This first major fund raising operation in the medium term market in 1978 marks an improvement for the borrower in the terms it can obtain. At the end of last year Denmark borrowed \$200m. from a group of Canadian banks on a split spread of ⅞% and 1%.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
‡Long Term Credit Bank of Japan	60	1983	5	6 11/16	100	First Boston, Credit Lyonnais	6.09
†Banque Nationale de Paris	75	1982	4	—	*	BNP	*
NZ Forest Products	25	1986	6.74	9	*	Kidder Peabody, LBI	*
D-MARKS							
Argentina	150	1985	7	6½	*	Deutsche Bank	*
‡TVO (g'teed Finland)	80	1988	8	6	99½	WestLB	6.07
Finland	50	1983	5	5¾	*	Dresdner	*
Banque National d'Algerie	100	1983	5	7¼	*	Dresdner	*
§Fujitsu	50	1986	—	4¾	*	Deutsche Bank	*
Eurofima	100	1988	8	5½	*	Deutsche Bank	*
Norcem	50	1985	7	6	*	Deutsche Bank	*
New Zealand	250	1986	8	5¾	*	Commerzbank	*
Escom	25	1981	3	8¼	*	Dresdner	*
SWISS FRANCS							
Den Norske Industribank	100	1993	n.a.	4	100	SBC	4.00
Mitsubishi Chemical Inds.	80	1985	n.a.	4½	*	SBC	*
STERLING							
‡Rowntree Mackintosh	18	1988	8.10	10½	*	Schroder Wagg	*
Sears	15	1988	10	10¼	*	Hambros	*
INA	20	1988	10	10	*	Blyth Eastman Dillon	*
AUSTRALIAN DOLLAR							
Citicorp	15	1983/8	¶	10½	*	First Boston, BNP, KIC	*
LUXEMBOURG FRANCS							
‡Kredietcorp	500	1986	n.a.	8	100¼	Kredietbank Lux.	7.96
DUTCH GUILDER							
Norges Kommunalbank	100	1993	n.a.	7¾	*	AmzoBank	*

* Not yet priced ‡ Final Terms ** Placement † Floating-rate note ‖ Minimum ¶ Purchase fund § Convertible Note: Yields are calculated on AIBD basis.

Indices

NEW YORK—DOW JONES

	Feb. 3	Feb. 2	Feb. 1	Jan. 31	Jan. 30	Jan. 27	1977-78 High	1977-78 Low	Since compilation High	Since compilation Low
Industrial	770.96	775.68	774.54	769.92	772.44	764.12	999.75 (3/1/77)	763.34 (26/1/78)	1051.70 (11/1/73)	41.22 (2/7/32)
H'me B'nds*	89.74	89.72	89.57	89.62	89.40	89.57	96.07 (7/9)	89.33 (25/1/78)	—	—
Transport	212.99	212.65	210.31	208.56	208.71	208.71	246.64 (18/6)	199.60 (25/10)	279.88 (7/2/69)	13.23 (8/7/32)
Utilities	105.51	105.46	105.24	104.77	104.91	104.84	118.67 (22/2)	104.77 (31/1/78)	163.32 (20/4/69)	10.58 (28/4/42)
Trading vol 000's †	19,400	25,050	22,240	19,870	17,400	17,600	—	—	—	—

* Basis of index changed from August 24

	Jan. 27	Jan. 20	Jan. 13	Year ago (approx.)
Ind. div. yield %	6.02	5.92	5.93	4.27

STANDARD AND POORS

	Feb. 3	Feb. 2	Feb. 1	Jan. 31	Jan. 30	Jan. 27	1977-78 High	1977-78 Low	Since Compilat'n High	Since Compilat'n Low
‡Industrials	98.66	99.30	99.12	98.35	98.44	97.51	118.92 (3/1/77)	97.47 (26/1/78)	134.64 (11/1/73)	3.52 (30/6/32)
§Composite	89.62	90.13	89.93	89.25	89.34	88.58	107.00 (3/1/77)	88.58 (26/1/78)	125.85 (11/1/73)	4.40 (1/6/32)

	Feb. 1	Jan. 25	Jan. 18	Year ago (approx.)
Ind. div. yield %	5.22	5.22	5.13	3.89
Ind. P/E Ratio	8.69	8.63	8.74	11.09
Long Govt. Bond yield	8.18	8.20	8.17	6.87

N.Y.S.E. ALL COMMON

Feb. 3	Feb. 2	Feb. 1	Jan. 31	1977/78 High	1977/78 Low
49.72	49.92	49.79	49.41	57.07 (4/1/77)	49.06 (27/1/78)

Rises and Falls

	Feb. 3	Feb. 2	Feb. 1
Issues traded	1,803	1,826	1,832
Rises	677	872	933
Falls	662	582	427
Unchanged	464	432	472
New Highs	—	—	—
New Lows	—	—	—

MONTREAL / TORONTO / JOHANNESBURG

	Feb. 3	Feb. 2	Feb. 1	Jan. 31	1977-78 High	1977-78 Low
MONTREAL Industrial	165.92	166.96	165.57	165.85	188.47 (17/3)	168.02 (25/10)
MONTREAL Combined	172.85	172.67	172.30	171.02	187.36 (19/1/77)	165.60 (25/10)
TORONTO Composite	1007.5	1006.6	1006.0	998.4	1067.4 (19/7)	981.8 (26/10)
JOHANNESBURG Gold	213.6	217.1	218.7	215.7	218.7 (1/2/78)	139.4 (24/5)
JOHANNESBURG Industrials	211.9	212.1	212.1	211.8	214.4 (4/1/78)	169.1 (22/4)

	Feb. 3	Previous	1977-78 High	1977-78 Low
Australia (¶)	465.99	461.80	479.45 (3/1/78)	418.65 (16/2)
Belgium (‖)	93.66	93.83	99.12 (10/1/77)	90.43 (12/1/78)
Denmark (**)	94.56	95.52	107.92 (9/6)	94.56 (3/2/78)
France (††)	47.6	48.6	56.4 (7/1/77)	45.5 (10/6)
Germany (‡‡)	804.8	799.9	815.5 (17/11)	712.5 (10/3)
Holland (§§)	80.1	80.3	93.2 (4/6)	75.6 (29/9)
Hong Kong (¶¶)	411.05	405.65	425.17 (11/6)	383.44 (13/1/78)
Italy (‖‖)	59.51	59.49	75.71 (5/1/77)	54.90 (22/12)
Japan (a)	383.11	382.49	390.93 (29/9)	350.49 (24/11)
Singapore (b)	267.68	266.36	362.02 (23/8)	242.28 (5/5)
Spain (d)	95.79	95.71	100.00 (30/12)	94.56 (25/1/78)
Sweden (e)	357.83	354.49	416.68 (22/5)	355.55 (24/11)
Switzerl'd (f)	317.4	316.7	318.6 (14/10)	280.5 (5/5)

Indices and base dates (all base values 100 except NYSE All Common — 50 Standards and Poors — 10 and Toronto 300-1,000, the last named based on 1975). † Excluding bonds. ‡ 400 Industrials. § 400 Inds., 40 Utilities, 40 Finance and 20 Transport. (¶) Sydney All Ord. (‖) Belgian SE 31/12/63. (**) Copenhagen SE 1/1/73. (††) Paris Bourse 1961. (‡‡) Commerzbank Dec., 1953. (§§) Amsterdam Industrial 1970. (¶¶) Hang Seng Bank 31/7/64. (‖‖) Milan 2/1/73. (a) Tokyo New SE 4/1/68. (b) Straits Times 1966. (c) Close. (d) Madrid SE 30/12/77—high and low for 1978 only. (e) Stockholm Industrial 1/1/58. (f) Swiss Bank Corp. (u) Unavailable.

GERMANY ♦

Feb. 3	Prices Dm.	+ or —	Div. %	Yld. %
AEG	92.5	—0.6	—	—
Allianz Versich.	505	+8	18	1.8
BMW	225		20	4.4
BASF	138.8	+0.6	17	6.2
Bayer	136.3	+0.1	16	5.9
Bayer. Hypo	293	+2	20	3.4
Bayer. Vereinsbk	317	+2	20	3.2
CibaInt.Ned.wrts	190		—	—
Commerzbank	224.5	+0.6	18	4.0
Conti Gummi	81.5	—0.5	—	—
Daimler Benz	318.5	+3.5	19	3.0
Degussa	271.7	+1.7	17	3.2
Demag	159.5	—0.3	14	4.4
Deutsche Bank	309.6	+1.1	20	3.2
Dresdner Bank	250.3	+0.8	20	4.0
Dyckerhoff Zemt.	153	—2	4	1.3
Gutehoffnung	218	+1.7	12	2.7
Hapag Lloyd	114	+1	12	5.2
Harpener	238	+1	9	3.8
Hoechst	126.5	+0.3	16	6.4
Hoesch	43.5		4	4.6
Horten	120.5		10	4.2
Kali und Salz	150	—0.5	9	3.0
Karstadt	308	—0.5	20	3.2
Kaufhof	204.5	—0.5	20	5.0
Kloeckner Dm 100	88.5		—	—
KHD	172	—0.5	12	3.5
Krupp	96.5	—0.2	—	—
Linde	244	+3	16	3.3
Lowenbrau 100	1,500		20	1.3
Lufthansa	112.5		7	3.2
MAN	205.7	+3.2	12	2.9
Mannesmann	170.5	+1	14	4.1
Metallges.	232	—3	10	2.2
Munchener Ruck.	552	+24	18	1.6
Neckermann	116	—0.5	—	—
Preussag Dm 100	117	+1	7	6.0
Rhein West Elect.	207	+2.6	16	3.9
Schering	260.1	+0.1	20	3.8
Siemens	296		16	2.8
Sud Zucker	252		17	3.4
Thyssen A.G.	121.4	+0.9	11	4.5
Varta	176	+1.5	14	4.0
VEBA	116.7	+0.4	12	5.2
Verein & West Bk.	303		20	3.3
Volkswagen	210.5	+0.5	10	2.4

JOHANNESBURG

AUSTRALIA

PARIS

VIENNA

BRAZIL

OSLO

SPAIN

OVERSEAS SHARE INFORMATION

Inv. \$ Prem. at \$2.60 to £—77¼% (77%)

Effective rate (at 1.9415) 32¾% (32¾%)

Securities Rand Discount 76⅛%

NEW YORK

CANADA

AMSTERDAM

TOKYO ¶

Source: Nikko Securities, Tokyo.

COPENHAGEN *

SWITZERLAND *

STOCKHOLM

MILAN

BRUSSELS/LUXEMBOURG

Hong Kong Realty holds interim payments

HONGKONG REALTY and Trust, the quoted property arm of Wheelock Marden, has announced unchanged interim dividends of 7c. per A share and of 1.4c. per B share and indicated its intention to sell 388 flats currently on the drawing board rather than hold them for rental.

A "satisfactory" profit increase was reported for the six months to September, and although the interim dividends were unchanged, they will absorb \$HK9.7m., compared with \$HK8.8m. the previous year, because of the one-for-10 bonus issue in the interim. The company expects to pay a final of at least 9c. an A share and 1.8c. a B share.

NOTES: Overseas prices exclude \$ premium. Belgian dividends are after withholding tax.

AUTHORISED UNIT TRUSTS

OFFSHORE AND OVERSEAS FUNDS

INSURANCE, PROPERTY, BONDS

G. Index Limited 01-351 3466. May Cocoa 1448-1456
29 Lamont Road, London SW10 0HS.

CLIVE INVESTMENTS LIMITED
1 Royal Exchange Ave., London EC3V 3LU. Tel.: 01-283 1101
Index Guide as at 24th January, 1978 (Base 100 at 14.1.77.)
Clive Fixed Interest Capital 135.06
Clive Fixed Interest Income 124.73

CORAL INDEX: Close 456-461

INSURANCE BASE RATES

† Property Growth 7½%
Cannon Assurance 4¼%
† Vanbrugh Guaranteed. 6.68%
† Address shown under Insurance and Property Bond Table.

FINANCIAL TIMES STOCK INDICES

—	Feb. 3	Feb. 2	Feb. 1	Jan. 31	Jan. 30	Jan. 27	A year ago
Government Secs.	74.85	75.65	76.10	75.61	75.84	76.19	65.90
Fixed Interest	78.72	79.16	79.19	79.20	79.44	80.28	65.50
Industrial Ordinary	458.7	460.5	469.8	467.0	470.0	477.5	403.8
Gold Mines	151.6	153.7	153.0	161.0	154.6	155.0	95.5
Ord. Div. Yield	5.84	5.81	5.71	5.73	5.69	5.61	5.74
Earnings Y'ld%(full)(*)	17.78	17.71	17.41	17.45	17.34	17.10	18.31
P/E Ratio (net) (*†)	7.87	8.00	8.14	8.12	8.17	8.29	7.87
Dealings marked	6,361	6,122	5,019	6,338	6,300	6,104	9,267
Equity turnover £m.	—	65.25	68.39	72.72	64.96	83.09	82.09
Equity bargains total	—	13,058	13,381	12,817	12,368	15,590	19,799

10 a.m. 460.5. 11 a.m. 458.1. Noon 458.4. 1 p.m. 459.0.
2 p.m. 458.7. 3 p.m. 459.4.
Latest Index 01-246 8026.
*Based on 52 per cent. corporation tax. † Nil=7.92.
Basis 100 Govt. Secs. 15/10/26. Fixed Int. 1928. Ind. Ord. 1/7/35. Gold Mines 12/9/55. SE Activity July-Dec. 1942.

HIGHS AND LOWS

—	1977/78 High	1977/78 Low	Since Compilation High	Since Compilation Low
Govt. Secs.	79.85 (30/9)	60.45 (4/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Int.	81.27 (9/1/78)	60.49 (4/1)	150.4 (28/11/47)	50.53 (3/1/75)
Ind. Ord.	549.2 (14/9)	357.6 (12/1)	549.2 (14/9/77)	49.4 (26/6/40)
Gold Mines	174.5 (15/10)	95.1 (1/2)	442.3 (22/5/75)	43.5 (26/10/71)

S.E. ACTIVITY

	Feb. 3	Feb. 2
—Daily		
Gilt-Edged	228.2	217.6
Industries	209.7	199.8
Speculative	49.7	45.0
Totals	144.8	139.5
5-day Av'rage		
Gilt-Edged	214.8	202.9
Industrials	201.5	194.4
Speculative	45.6	42.9
Total	137.4	131.7

FINANCIAL TIMES STOCK INDICES

—	Feb. 3	Feb. 2	Feb. 1	Jan. 31	Jan. 30	Jan. 27	A Year ago
Industrial Group	196.13	197.48	200.60	199.60	201.47	204.16	157.41
500 Shares	215.78	217.46	220.65	220.17	221.83	224.47	184.41
Div. Yield pc	5.70	5.65	5.57	5.59	5.54	5.48	5.74
P/E Ratio (net)	8.06	8.12	8.32	8.30	8.37	8.48	9.44
All Shares	199.36	201.46	204.49	203.94	205.70	208.21	170.64

SINGAPORE

Feb. 3	$	Feb. 3	$
…dustrials		StraitsTrad'g	6.50
…vis	0.62½	Times Pub.	
…ustead Co.	1.46	Berhad	3.90
…ustead Bhd	1.93-1.95	U. Engineers	1.42
…nlop	4.06xd	U. Ov's. Bk.	2.88
…so	2.49	Wearne	2.26
…aser Neave	3.48-3.52	Tractor	3.44
…w Par	0.89	Chemical	4.14xd
…ume Ind.	1.37	W'llm Jacks.	1.06-1.08
…chcape	2.08	Rubbers	
…rdine	1.96	Batu Lintang	1.50-1.54
…alay Brew.	†4.76	Dunl'pEstate	2.85
…alay Cemt.	2.62-2.66		
…ll. Tobacco	6.00xd	Kempas	3.80
…ll. Bk. Sing	2.40xd		
…eChin Bk	5.90	Tins	
…n Electric	1.78	Austral. Am.	—
…binson Co.	2.15	Berjuntai	7.30xd
…chman	3.58	Kampar	†2.97
…ell	1.97	Kramat	—
…me Darby	3.32	Kuchai	0.88
…ld Storage	1.87	Lower Perak	—
…raitsSteam	2.45	Petaling Tin	—
…raits Times	6.65	SupremeCp.	2.75
…1978) Ltd.		TongkahHar.	2.62

…Buyer. ‡ Seller. — Unquoted. xd Ex-dividend.

HONG KONG

Hong Kong$	Feb. 3	Jan. 27
Govt. Loan 1968	—	—
Amalgamated Rubber	1.54	1.52
Bowaters	—	—
China Light & Power	20.30	20.10
City Hotels	31.50	32.75
Cosmopolitan Properties	1.48	1.39
Cross Harbour Tunnel	11.10	10.70
E. Asia Navigation	3.82	3.95
Hong Kong Aircraft	67.00	66.50
Hong Kong Electric	5.05	5.05
HongKongKowloonWharf	15.90	13.80
Hong Kong Land Invest.	6.70	6.65
Hong KongShanghai Bank	17.30	[illegible]
HongKongShanghaiHotls	12.40	12.40
Hutchison Whampoa	3.67	3.60
Inter. Pacific Securities	8.90	8.80
Jardine Matheson	12.60	12.40
Jardine Secs	†5.70	5.65
Rubber	1.86	1.90
Sime Darby	—	6.25
Southn. Pac. Prop.	—	—
Southsea Textile	—	—
Swire Pacific A	5.65	5.60
Textile Alliance	—	—
TextileCorp of Hong Kong	—	—
Wheelock Marden	2.20	2.20
Wheelock Maritime	†3.30	—
Winsor Industrial	1.93	1.92
Wynoor	[illegible]	—

† Buyer. — Unquoted. ‡ Seller. π Nominal.

NOTES

FT SHARE INFORMATION SERVICE

**BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
15M	15S	Treasury 9pc 1978‡‡	100⅜	9.8	8.97	6.09
14J	14Ju	Treasury 10½pc '78‡‡	102¼	8.12	10.27	5.25
25M	25S	Exch. 5pc 76-78‡‡	99⅝	22.8	5.02	5.59
9M	9S	Treasury 11½pc '79‡‡	104⅜xd	31.1	11.02	7.27
17M	17S	Treasury 3pc '79‡‡	94⅞	11.8	3.16	6.39
26M	28S	Electric 4½pc '74-79	96	12.8	4.43	6.87
1M	1N	Treasury 10½pc '79‡‡	103	26.9	10.18	8.45
15M	15N	Electric 3½pc '76-79	94⅞	10.10	3.69	6.60
3M	3S	Treasury 9pc 1980‡‡	100⅞xd	25.1	8.92	8.55
14M	14N	Treasury 9½pc '80‡‡	101¼	10.10	9.38	8.87
15J	15D	Treasury 3½pc '77-80	93⅜	8.11	3.75	6.58
15J	15D	Funding 5¼pc '78-80‡‡	94⅜	8.11	5.56	7.91
25M	25N	Exchequer 13pc 1980‡‡	107⅞	19.10	12.07	9.77
15J	15Ja	Treasury 11½pc 1981‡‡	104	9.12	11.03	9.77
15F	15A	Treasury 3½pc 1979-81	90½xd	9.1	3.87	7.04
1A	10	Treasury 9¾pc 1981‡‡	99	25.8	9.77	9.81
12J	12D	Exch. 8¼pc 1981	95	—	8.62	9.77
4F	4A	Exch. 9¾pc 1981	99	29.12	9.58	9.80
21F	21A	Exch. 3pc 1981	87xd	16.1	3.42	7.00
17M	17N	Treas. Variable '81‡‡	96½	11.10	6.50	7.32
23M	23N	Exch. 12¾pc 1981‡‡	108	17.10	11.79	10.08
15J	15Ja	Treas. 8½pc '80-82‡‡	96¼	9.12	8.83	9.66
15F	15A	Treasury 3pc '82‡‡	84½xd	9.1	3.55	7.54
16M	16S	Treasury 14pc '82‡‡	112	10.8	12.48	10.29
15J	15D	Treas. Variable '82‡‡	95	8.11	6.54	7.36
5J	5Ju	Treasury 8¼pc '82	94¼	1.12	8.75	9.89
22M	22S	Exch. 9¼pc 1982	97	16.8	9.52	10.02

Five to Fifteen Years

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
21F	21A	Exch. 3pc '83	81⅝xd	16.1	3.68	7.47
17M	17S	Treasury 12pc 1983‡‡	111½	11.8	11.23	10.25
18J	18Ju	Treasury 9½pc '83	96¾	12.12	9.57	10.16
15J	15Ja	Funding 5½pc '82-84‡‡	86½	9.12	6.38	8.51
10J	10Ju	Treasury 8½pc '84-86‡‡	94	5.12	9.10	9.67
1M	1N	Funding 6½pc '85-87‡‡	84½	26.9	7.85	9.32
26J	26Ja	Treasury 7¾pc '85-88‡‡	86¼	20.12	9.01	10.00
1J	1Ju	Transport 3pc '78-88	64⅝	25.11	4.66	8.11
15A	15O	Treasury 5pc '86-89	71¼	6.9	7.18	9.30
15J	15Ja	Treasury 13pc 1990‡‡	110½	9.12	11.86	11.50
15J	15D	Treasury 8¼pc '87-90‡‡	85¾	8.11	9.76	10.33
10J	10Ja	Treasury 11¾pc 1991	101½	5.12	11.52	11.45
5A	5O	Funding 5¾pc '87-91‡‡	71	1.9	8.20	9.85
[illegible]	[illegible]	Treasury 12¾pc '92‡‡	107⅜	16.12	11.78	11.55

Over Fifteen Years

[illegible]

Undated

[illegible]

**INTERNATIONAL BANK

[illegible]

**CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

U.S. $ & DM prices exclude inv. $ premium

AMERICANS

[illegible]

AMERICANS—Continued

[illegible]

S.E. List Premium 32½% (based on $US1.9375 per £)

Conversion factor 0.7540 (0.7543)

CANADIANS

[illegible]

S.E. List Premium 32½% (based on $2.1480 per £)

BANKS AND HIRE PURCHASE

[illegible]

Hire Purchase, etc.

[illegible]

BEERS, WINES AND SPIRITS

[illegible]

BUILDING INDUSTRY, TIMBER AND ROADS

[illegible]

BUILDING INDUSTRY—Cont.

[illegible]

CHEMICALS, PLASTICS

[illegible]

CINEMAS, THEATRES AND TV

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Cont.

[illegible]

ELECTRICAL AND RADIO

[illegible]

ENGINEERING MACHINE TOOLS

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC.

[illegible]

HOTELS AND CATERERS

[illegible]

HOTELS—Continued

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INSURANCE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING ADVERTISING

[illegible]

PROPERTY

[illegible]

INSURANCE

[illegible]

PROPERTY—Continued

[illegible]

SHIPBUILDERS, REPAIRERS

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INV. TRUSTS—Continued

[illegible]

Finance, Land, etc.

[illegible]

FINANCE, LAND—Continued

[illegible]

OILS

[illegible]

OVERSEAS TRADERS

[illegible]

RUBBERS AND SISALS

[illegible]

TEAS

India and Bangladesh

[illegible]

Sri Lanka

[illegible]

Africa

[illegible]

MINES

CENTRAL RAND

[illegible]

EASTERN RAND

[illegible]

FAR WEST RAND

[illegible]

O.F.S.

[illegible]

FINANCE

[illegible]

DIAMOND AND PLATINUM

[illegible]

MINES—Continued

CENTRAL AFRICAN

Dividends Paid	Stock	Price	Last xd	Div Net	Cvr	Y'ld Gr's
Nov. May	Falcon Rh.50c	180	19.9	Q50c	1.3	26.0
May	Rhod'n Corp. 16½p.	21	37.7	0.57	4.3	4.1
—	Roan Cons. K4	60	1274	—	—	—
Dec. July	Tanganyika 50p	134	17.10	Q11.0	1.1	8.2
Jan. July	Do. Pref. 80p	78	12.12	Q9%	16.4	9.2
Nov. May	Wankie Col. Rh.1	37	17.10	Q7½c	1.4	17.3
—	Zam.Cpr.SBD0.24	10½	11.74	—	—	—

AUSTRALIAN

Dividends Paid	Stock	Price	Last xd	Div Net	Cvr	Y'ld Gr's
—	Acmex 25c	12	—	—	—	—
Nov. Apr.	Bougainville 50 Toea	73	14.3	Q10c	1.5	8.7
—	BH South 50c	72	974	—	—	—
Oct. May	Conzinc Riotinto 50c	162	14.3	Q9c	2.3	3.4
—	G.M. Kalgoorlie $1	61	6'67	—	—	—
September	Hamptn Areas 5p	92	25.7	1.45	4.1	2.4
—	Metals Ex. 50c	13	—	—	—	—
Dec. Apr.	M.I.M. Hldgs. 50c	134	31.1	Q9c	1.7	4.2
—	Mount Lyell 25c	19	—	—	—	—
—	Newmetal 10c	2	—	—	—	—
June Nov	North B. Hill50c	88	31.10	Q8c	1.5	5.6
—	Nth. Kalgurli	9	—	—	—	—
June Nov.	Oakbridge $A1	138	7.4	Q11c	1.9	5.0
—	Pacific Copper	34	—	—	—	—
—	Pancont'l 25c	825	—	—	—	—
—	Paringa M&Ex.5p	13	—	—	—	—
Apr. Oct.	Peko-Wallsend 50c.	440	19.9	Q15c	4.0	2.1
—	Poseidon 20c	75#	—	—	—	—
Oct. May	Westn. Mining 50c	85	19.9	Q6c	1.4	4.4
—	Whim Creek 20c	40	—	—	—	—

TINS

Dividends Paid	Stock	Price	Last xd	Div Net	Cvr	Y'ld Gr's
Nov. Apr.	Amal. Nigeria	29	17.10	2.51	1.6	13.1
Apr. Oct.	Ayer Hitam $M1	260	5.9	Q416.7c	0.9	34.4
Apr. Oct.	Beralt Tin	51	8.8	3.75	2.3	11.1
Jan. July	Berjuntai $M1	210	3.1	‡Q60c	ϕ	‡
Feb. Oct.	Geevor	460	16.1	19.05	3.4	5.9
—	Gold & Base 12½p	9	10.74	—	—	—
July Dec.	Gopeng Cons.	265xd	30.1	15.0	ϕ	8.6
—	Hongkong	145	11'67	—	—	—
Mar. Sept.	Idris 10p	90xd	30.1	7.5	ϕ	12.6
—	Jantar 12½p	10½	4'67	—	ϕ	—
—	Kamunting $M0.50.	69	—	2Q15.5c	0.7	4.8
Jan. July	Killinghall	450	12.12	Q125	ϕ	27.8
January	Malay Dredging $M1	290	12.12	Q95.5c	0.8	7.1
—	ΔPahang	45	9.75	†Q2.5	0.5	5.6
July Jan.	Pengkalen 10p	55xd	30.1	6.5	ϕ	17.9
Jun. Nov.	Petaling $M1	170	12.12	mQ12½c	10.9	1.6
Mar. Oct.	Saint Piran	54	3.1	g1.99	ϕ	5.6
February	South Crofty 10p	59	3.1	b4.12	1.5	10.4
Jan. July	South Kinta $M0.50	145	3.1	tQ77.6c	1.4	11.5
June Jan.	Sthn Malayan $M1	250	3.1	tQ131.3c	1.1	11.3
—	Sungei Besi $M1	144	—	—	—	—
—	Supreme Corp. $M1	60	9.74	ZQ10c	—	3.6
Mar. Aug.	Tanjong 15p	100xd	30.1	4.5	ϕ	6.8
Sept. Mar.	Tongkah Hrbr. $M1	74	12.12	Q56.82%	1.6	16.5
Apr. Oct.	Tronoh $M1	160	5.9	ZQ30c	2.0	4.0

COPPER

Dividends Paid	Stock	Price	Last xd	Div Net	Cvr	Y'ld Gr's
June Dec.	Messina R0.50	88	12.12	‡Q30c	1.9	‡

MISCELLANEOUS

Dividends Paid	Stock	Price	Last xd	Div Net	Cvr	Y'ld Gr's
—	Burma Mines 17½p.	9	575	—	—	—
—	Colby Mines $C1	80	—	—	—	—
Aug. Feb.	Cons. Murch. 10c	250	3.1	Q30c	ϕ	‡
—	Northgate C$1	260	375	—	—	—
Jan. June	R.T.Z.	170	31.10	t8.5	q3.1	7.6
—	Sabina Inds. C$1	37	—	—	—	—
—	Tara Exptn. $1	830	—	—	—	—
Nov. July	Tehidy Minerals 10p.	45	17.10	1.21	2.5	4.1
October	Yukon Cons. C$1	127	15.9	Q7c	ϕ	3.3

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on the basis of net distribution; bracketed figures indicate 10 per cent. or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution. Yields are based on middle prices, are gross, adjusted to ACT of 34 per cent. and allow for value of declared distributions and rights. Securities with denominations other than sterling are quoted inclusive of the investment dollar premium.

- Δ Sterling denominated securities which include investment dollar premium.
- ● "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ϕ Figures or report awaited.
- †† Unlisted security.
- ¢ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ** Free of Stamp Duty.
- ♦ Merger bid or reorganisation in progress.
- ‡ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ▼ Excluding a final dividend declaration.
- ✦ Regional price.
- ‖ No par value.

a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. r Australian currency. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Tax free up to 30p in the £. w Yield allows for currency clause. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. D Cover and P/E ratio exclude profits of U.K. aerospace subsidiaries. E Issue price. F Dividend and yield based on prospectus or other official estimates for 1977-78. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1976-77. K Figures based on prospectus or other official estimates for 1978. M Dividend and yield based on prospectus or other official estimates for 1978. N Dividend and yield based on prospectus or other official estimates for 1979. P Dividend and yield based on prospectus or other official estimates for 1977. Q Gross. T Figures assumed. U No significant Corporation Tax payable. Z Dividend total to date. ¢¢ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

"Recent Issues" and "Rights" Page 29

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £400 per annum for each security

REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

Albany Inv. 20p	23	......
Ash Spinning	45	......
Bertam	17	......
Bdg'wtr. Est. 50p	275	−3
Clover Croft	22	......
Craig & Rose £1	400	......
Dyson (R.A.)	37	......
Ellis & McHdy	68	......
Evans Fr'k.10p.	56xd	......
Evered	16	−1
Fife Forge	47	......
Finlay Pkg. 5p	18	−2½
Graig Ship. £1	240	......
Higsons Brew	83	......
I.O.M. Stm. £1	137xd	......
Holt (Jos.) 25p	245	......
N'thn. Goldsmith	64	−2
Pearce (C. H.)	130	......
Peel Mills	17	......
Sheffield Brick	47	......
Sheff. Refrshmt.	50	......
Shiloh Spinn	19	......
Sindall (Wm.)	85	......

IRISH

Conv. 9% '80/82	£97	−¼
Alliance Gas	70	......
Arnott	325	......
Carroll (P.J.)	110	+5
Clondalkin	84	−1
Concrete Prods.	125	......
Heiton (Hldgs.)	52	......
Ins. Corp.	165	......
Irish Ropes	120	......
Jacob	68	......
Sunbeam	28	+1
T.M.G.	175	......
Unidare	70	......

OPTIONS
3-month Call Rates

Industrials

A. Brew	6½
A.P. Cement	18
B.S.R.	9
Babcock	10
Barclays Bank	25
Beecham	38
Boots Drug	15
Bowaters	16
B.A.T.	24
British Oxygen	6
Brown (J.)	20
Burton 'A'	13
Cadburys	5
Courtaulds	10
Debenhams	10
Distillers	13
Dunlop	8½
Eagle Star	11
E.M.I.	18
Gen. Accident	17
Gen. Electric	18
Glaxo	40
Grand Met.	9
G.U.S. 'A'	18
Guardian	18
G.K.N.	22
Hawker Sidd.	20
House of Fraser	12
I.C.I.	23
"Imps"	7
I.C.L.	20
Inveresk	7
KCA	5
Ladbroke	17
Legal & Gen.	14
Lex Service	7
Lloyds Bank	22
"Lofs"	5
London Brick	5
Lonrho	7
Lucas Inds.	25
Lyons (J.)	13
"Mams"	7
Mrks. & Spncr	11
Midland Bank	25
N.E.I.	20
Nat. West. Bank	22
Do. Warrants	10
P & O Dfd.	10
Plessey	9
R.H.M.	5
Rank Org. 'A'	18
Reed Intl.	14
Spillers	4
Tesco	4
Thorn	22
Trust Houses	15
Tube Invest.	30
Unilever	40
Utd. Drapery	7½
Vickers	15
Woolworths	6

Property

Brit. Land	3¼
Cap. Counties	5
E.P.	5
Intreuropean	4
Land Secs.	18
MEPC	12½
Peachey	10
Samuel Props.	10
Town & City	2

Oils

Brit. Petroleum	35
Burmah Oil	7
Charterhall	3½
Shell	28
Ultramar	22

Mines

Charter Cons.	12
Cons. Gold	20
Rio T. Zinc	16

FINANCIAL TIMES

Monday February 6 1978

Jenkins hits at EEC unity plan critics

BY REGINALD DALE

MR. ROY JENKINS, President of the European Commission, has called for a new pattern of government in the EEC, with a new set of relationships between the Community, national Governments and regional and local authorities.

Hitting back in a major policy statment in London at critics of his plans for European monetary union, he said that the Community must either take a further step forward or move backward.

There was no need for the Community to develop into a federal State on the lines of the U.S. or West Germany, he said. But there must be a significant transfer of power, from the national to the Community level, including control over the money supply and exchange rates.

This could be matched by a transfer of other Government functions "downwards" to provincial and regional authorities.

Only option

The classic European nation—State was both too small and too big for all purposes — too small to restore full employment or promote economic growth, and too big to satisfy the growing demand for cultural differentiation and popular participation in decision-making.

There was no satisfactory model for the new pattern, which would have to be built up gradually. A new Community system of Parliamentary control would have to be devised.

Mr. Jenkins, giving the Rita Hinden Memorial Lecture, said that even economically strong countries like West Germany could not by themselves pull the Community out of recession. They were too heavily dependent on exports.

The only option was for the EEC countries to cut through the vicious circle of unemployment and inflation at Continental level, and do so at the level of the European Community as a whole.

He did not claim that monetary union would automatically lead to full employment. But he saw no hope of returning to acceptable employment levels unless exchange rate uncertainties were ended, and this could be done only through monetary union.

Mr. Jenkins rejected arguments that monetary union presupposed convergence in economic performance. If it did, "the monetary union known as the U.S. would long since have fallen apart."

The essential was that all parties to the union, stronger and weaker alike, benefit and be seen to benefit.

If the EEC took in Greece, Portugal and Spain, an unquestionable political imperative, the achievements of the past 20 years would be placed in jeopardy if no advance strengthening measures were taken.

FT Monthly Survey of Business Opinion

Rise in consumer spending expected to continue

THE long-expected upturn in consumer spending is at last beginning to come through.

Stores and consumer services companies interviewed last month for the Financial Times survey of business opinion said they had had a good Christmas selling season, had seen a rise in consumer spending in recent months and, with disposable incomes growing, they expected the improvement to continue.

Many electrical engineering companies reported improved demand for consumer electricals as well as for capital goods, while firms in the cars and consumer durables sector said there were signs of more money around.

These encouraging signs were offset by growing worries about export prospects. The recent hardening of sterling was cited by many companies, together with the less optimistic outlook for world trade.

The improved outlook at home has encouraged some firms to be a little more bullish about future employment levels. But the number expecting to take on more labour in the next 12 months is still only slightly larger than the number expecting to make do with fewer.

In answer to a question about the factors currently affecting employment levels, half of the firms contacted for the survey in the last four months cited plans to improve productivity, nearly three-fifths mentioned the potential cost of redundancy payments or other aspects of employment legislation, and 40 per cent. cited lack of demand.

Among the other reasons given were difficulties in recruiting staff with suitable skills, the high cost of labour in relation to profitability, or the desire of existing staff to work overtime.

Inflation expectations continue to improve. The median forecast for the rise in wage costs over the next 12 months has peaked out at about 12½ per cent., while the median forecast increases for total unit costs and output prices have dropped back to around 11 per cent.

On balance, industry is still hopeful of higher earnings on capital employed in the current financial year. But, looking further ahead, a further recovery in profit margins is thought unlikely in face of rising costs and price competition.

The outlook for industrial investment remains promising. Over half of the latest all-industry sample of companies expect to spend more in real terms in the next year.

Details, Page 30

EARNINGS ON CAPITAL — 4 monthly moving total — January 1978

Those expecting earnings during current year to:	Oct.-Jan. %	Sept.-Dec. %	Aug.-Nov. %	July-Oct. %	Elect. Eng'g. %	Consumer Durables %	Stores %
Improve	47	43	47	57	67	54	39
Remain the same	23	22	20	17	32	23	55
Contract	25	26	24	14	1	23	6
No comment	5	9	9	12	—	—	—

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THE LEX COLUMN

Waiting for a City rule book

For a body that is supposed to be in the final stages of preparation, the Council for the Securities Industry remains a mystery to most of the City. More than a year after it was originally conceived, the idea has barely been discussed beyond a select circle in the Bank of England and the Stock Exchange Council.

The signs are that the proposed Council will have a much narrower brief than some of its proponents originally envisaged. The Baltic Exchange, Lloyd's, the commodity markets and other disparate organisations are not going to come within its ambit. Instead, it will confine itself to the securities market. The Stock Exchange, the clearers, the insurance companies and pension funds will all be involved along with the merchant banks, in so far as they are concerned with the issuing or trading of securities.

Much to their chagrin, major users of the stock market such as the pension funds have not yet been consulted in anything but the most superficial way. U.S. brokers, who will presumably be encouraged to associate themselves with the City's latest move to bolster self regulation, know very little about it. Even in the merchant banks, there is a surprising mixture of ignorance and diffidence when the talk turns to the new Council.

Blueprint

A public announcement is expected from the Bank in the next month or so—coinciding happily with the period when the Wilson committee will be turning its attention towards the regulation of the markets. The general assumption is that the Bank's blueprint will then be up for discussion among the interested parties.

There will be plenty to talk about. Even within the comparatively limited area of the securities market, there are strong feelings about how much, and what, the new organisation should attempt to bite off. For instance, although there is general agreement that the supervision of prospectuses and rights issue documents ought to come under its wing, it is not at all clear how it will mesh in with the Quotations Department of the Stock Exchange, which already does this job.

There are those who would also like to see it active in such areas as directors' share dealings, the selling of unit linked life assurance and the control of licensed dealers. But the more widely it tries to impose its authority, the greater its problems will become.

Takeover Panel

The success of the Takeover Panel is based on the fact that it deals with a relatively narrow circle of professionals who know the rules and want to continue to play the game. The Stock Exchange's inquiry into the affairs of Sir Hugh Fraser successfully went beyond the confines of the City—but only because the people involved decided that it was in their interest to play ball. Outsiders will not always be so co-operative.

For this reason, it is possible that the prestige of the Takeover Panel could be jeopardised if it were swallowed up by the Council and presented with a wider disciplinary role. Instead, it should be allowed to keep its independence and simply operate under the umbrella of the new system.

Another contentious point is the position of the accountants. The effectiveness of the new council would be strengthened greatly if the accountants were involved, because of the part they play in vetting financial information and, as a result, in many city scandals. An effective council would also be of benefit to them. At present they get little real help from the Stock Exchange in enforcing accounting standards on listed companies. Their investigative and disciplinary procedures become bogged down in difficulties over acceptable levels of proof, and are weakened by their lack of authority to enforce the disclosure of evidence.

Some accountants hope that if the Council works, and its disciplinary procedures are regarded as sufficiently authoritative, then their most pressing problems could be relieved. They would not normally have to carry out their own investigations (even if they did, the hope is that the new Council would have enough clout to force anyone to give evidence) and they would simply have to get on with the job of handing out sanctions to their members.

One hurdle to overcome in bringing about such a developmem would be the need to persuade the members of the various accounting bodies to alter their charters. This could be another case where the interests of the major firms appeared to run counter to those of the small fry.

The new council will have to be equipped, and prepared, to take tough decisions against City institutions that have hitherto cherished their independence. In order to be effective, it will do well to confine itself to a narrow and clearly defined beat—specifically, improving professional standards in the primary and secondary markets for securities.

The key question is whether the Council is ever going to develop from being no more than a forum for discussion into something that can be presented as a voluntary version of the Securities and Exchange Commission in the U.S. City institutions, including the Stock Exchange, would probably be happier with the former. But if the City wants to keep out of the clutches of statutory control, it will have to come up with more than just a talking shop.

Clearers' accounts

Everyone believes in accounting standards—if only they don't hurt. That is the conclusion that might be drawn from the recent (almost certainly successful) campaign by Britain's property companies to gain permanent exemption from the new rules on depreciation of buildings. The view is enforced by the news that the clearing banks are holding up promulgation of another important accounting standard — the proposals on deferred tax. These may not now appear until early next year instead of July 1978, as planned.

It seems that the banks have realised that compliance with the tax standard would have the awkward side-effect of revealing a closely guarded secret—their level of general bad debt provisions. These are not tax deductible. And since the proposed accounting rule calls for the disclosure in notes to the accounts of the major components making up the amount of deferred tax a simple grossing up of the bad debt deferred tax asset would give the game away.

The clearers argue that foreign banks are not required to disclose such sensitive information, and that thereby British banks would be at a competitive disadvantage. Maybe so, but they could be on dangerous ground if they start to stir things up. The accountants just might be tempted to take an overall look at some of the special concessions—notably the so-called Leach-Lawson rules — which the clearers carved out for themselves before accounting standards of any kind were devised.

Environmentalists halt uranium hunt

BY RAY PERMAN, SCOTTISH CORRESPONDENT

THE programme of uranium prospecting in Britain, partly financed by the European Commission, has virtually stopped in the face of opposition from environmental groups.

Last year, the South of Scotland Electricity Board was refused planning permission to sink trial bore holes in Orkney and, after assessing public opinion in the islands decided not to appeal.

More recently, it ran up against opposition in Deeside, where uranium traces were detected.

The conservation group, Friends of the Earth, has been organising resistance to the Board's programme. A local "doomwatch" committee was set up and, although protests were not as vociferous as in Orkney, they were strong enough to cause second thoughts.

Mr. Roy Berridge, the Board's chairman, said that it had underestimated the reaction its proposals would arouse. "We knew that people would be concerned about mining—and understandably so—but we did not think they would be concerned about drilling.

"The position on uranium stocks is very much better now than when the programme started, so there is not the same urgency. We were caught on the hop. We do not enjoy stirring up trouble or upsetting people"

Although the Board had been talking to landowners on Deeside to get permission to prospect on their property, it had no intention of applying for planning permission from the local district council in the near future.

Although uncertain whether this permission is legally required, the Board said it would not go ahead without it.

Conservatives may outline devolution policy to-day

BY ANTHONY MORETON, REGIONAL AFFAIRS EDITOR

CONSERVATIVE PARTY policy towards devolution and the position of Scotland is likely to be outlined in a major speech to-day in Edinburgh by Mr. Francis Pym, Shadow spokesman on devolution.

With the committee stage of the Scotland Bill completed under guillotine the Commons has a short respite before the Government decides what to do about those amendments which have been carried against its wishes.

Some indication of its thinking should come at the report stage in a few weeks.

When that has been completed the Wales Bill will be brought before the Commons and the fight between the parties will start again.

The Conservatives have implacably opposed the Government's proposals on devolution. Mr. Pym has said that the Bill was ill-considered, as was its predecessor introduced in the last session of Parliament, and he is known to believe that if the Scots and Welsh do get assemblies there is no justification for their continuing to send the same number of MPs to Westminster.

While there has been hard-line opposition to the Government's proposals it is less clear what the Conservatives would like beyond setting up a constitutional conference to consider the issue.

It is not thought they would advocate such a conference being held under the auspices of the Speaker, although there are precedents for such a course, because of the enormous pressures on him.

The probability is that such a conference would be entrusted to a senior judge, possibly the Lord Chief Justice, though this, again, would depend on the workload being undertaken by the bench.

The drawback of such a conference is that it would take a long time over its deliberations, probably a couple of years, and would almost certainly not produce a unanimous report.

It could therefore be seen in Scotland and Wales as a means of postponing a decision.

As the Conservatives are electorally weak in Scotland this might not be a bad thing from their point of view as it would allow them to regroup to meet the challenge from Labour and the Scottish National Party.

Poll will be tough, says Thatcher, Page 4

Tories 'will set councils free'

BY DAVID CHURCHILL

THE CONSERVATIVE PARTY is planning a complete overhaul of Whitehall intervention in local government as an early priority of a future Conservative Government.

Its strategy will include legislation to allow council tenants to buy their own homes, more contracting out of council services, and a new partnership with local industry.

Mrs. Margaret Thatcher, Tory leader, disclosed this at the party's local government conference in London at the week-end.

She told delegates, mainly councillors from all over Britain, that it was "time-wasting and pound-wasting for central government to spend so much time looking over your shoulders."

Mrs. Thatcher quoted the example of the Community Land Act, which resulted in a total of 111 official instructions to local authorities about how the Act should work.

She pointed out that in its first year of operation, only 33 acres of land acquired by local authorities were re-sold to developers. "That is a ratio of about four Whitehall Orders to each acre."

The next Tory Environment Secretary would "review as a matter of urgency every Whitehall circular and rule governing your activities. Our aim will be to give you more responsiblity for your own communities."

This would include scrapping many of the "foolish and frustrating regulations that dictate what council tenants can and cannot do.

"A Bill to give a statutory right to tenants to buy their own homes will be brought forward in the first session of the next Parliament."

The Tory policy of less central intervention in local government was further clarified by Mr. Michael Heseltine, Opposition Environment spokesman.

The design and planning of public works could be carried out by private sector architects, engineers and surveyors, and construction contracts awarded to independent builders, he suggested.

"Every local authority should examine the opportunities for audit by practising firms of accountants." Many council services, such as contract cleaning, catering, maintenance, gardening and printing, could be provided by small local businesses.

The Tories also intend to compile land registers "to establish what development sites in municipal hands can be sold."

They were seeking to forge a new partnership between councillors and local industry, Mr. Heseltine went on.

Concorde likely to be given U.S. boost

BY JOHN WYLES — NEW YORK, Feb. 5.

AN EXPANSION of Concorde services looks likely in the second half of this year with British Airways expecting to step up its New York-London flights from seven to 10 a week and Braniff International seeking to operate from New York to South America.

These extra services would raise the number of flying hours of the British Airways and Air France Concordes and would enable British Airways to consolidate the profit which it claims is being made on the transatlantic services

On February 11 British Airways joins Air France in offering a daily Concorde service from New York which is earlier than planned.

However, with load factors running over 80 per cent. British Airways believes that it will be in a position to operate 10 flights a week by June.

Shortly after, the British Concorde which provides a three days a week service between Washington and London, is expected to be operated by Braniff International, the Texas-based airline, between Dallas-Fort Worth and Washington.

Braniff is waiting for the Federal Aviation Authority to give Concorde a certificate and for Civil Aeronautics Board approval for the aircraft's subsonic use on the domestic leg.

Braniff plans to use both British and French Concordes linking Dallas-Fort Worth supersonically to London and Paris.

The flights wil give Braniff the experience with Concorde to fulfil its other objective of leasing the plane for a supersonic New York-Panama service..

Negotiations on a leasing charge are expected to start shortly.

Flying time to Panama would be cut from five hours to two hours 30 minutes.

Treasury asked to study N. Sea oil revenue fund

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

THE TREASURY has been asked by the Cabinet to examine how a special fund for using North Sea oil revenue might operate in practice.

Increasing support for the proposal in principle was shown at a recent meeting of the Cabinet. But before reaching a final decision, Ministers wanted a study by officials on the details.

This is likely to be discussed by the Cabinet within the next fortnight so that the question can be resolved before publication later this month of the White Paper outlining the options on the use of the benefits of North Sea oil.

Among the points needing clarification are the formal status of any special oil fund, whether the money channelled through it would go entirely in additional public spending or could also finance tax cuts, and whether any expenditure would be additional to existing programmes.

For example, there is the question of whether the large investment expected in new energy resources would be diverted through a special fund.

At the preliminary Cabinet discussion, several Ministers seem to have been attracted by the proposal on the political grounds that the existence of an oil fund would demonstrate that the Labour Government was not "frittering" away North Sea oil, but intended to use the revenue positively.

In contrast, reservations have been expressed by Ministers who believe that a fund would have an inevitable bias towards extra public expenditure, especially on extra direct aid for industry.

The issue is still finely balanced and a lot may depend on whether the Prime Minister decides to provide a definite lead.

Continued from Page 1

Pay sanctions face tests

In this case, instead of sanctions being applied, the Government would attempt to use the Counter-Inflation Act of 1973 to force a reduction in insurance premiums.

Under the threat of sanctions, Imperial Chemical Industries has amended a pay deal involving more than 84,000 workers. The Department of Employment objected because ICI agreed in November to a productivity deal in addition to a Phase Two settlement.

The employees were promised a productivity bonus of 6 to 10 per cent. Now a new agreement has been secured ensuring that if sales growth fails to achieve 6 per cent., unions and managements will meet again to discuss what bonus might be paid.

Pauline Clark, Labour Staff, writes: The sanctions row comes at a sensitive time for the Government as several major industrial groups threaten to make trouble in the final lap of the present pay policy.

The power workers, led by Mr. Frank Chapple, EPTU general secretary, are maintaining an aggressive stance on their "substantial" pay claim and have warned of industrial action if militants' demands for pay rises of up to 40 per cent. are ignored.

With the miners also taking an obstinate line on their claim, the Government seems faced with a tough ride until March—their mutual pay settlement date — from two traditionally interrelated groups with strong industrial muscle.

This week the Government also faces continuing worries from the national tanker drivers' overtime ban.

Esso said at the week-end that it was encouraged by a narrowing in the gap between the drivers' original claim of 30 per cent. revised to nearer 20 per cent. and the company's offer of 15¼ per cent. with productivity, allowing up to 18 per cent., more for the higher skilled.

But the national action has already cut petrol deliveries by 30 per cent., and the cumulative effects of the first week of the ban are unlikely to be known until mid-week.

● A pay rise of 10 per cent. for MPs from next June in line with the Government's pay guidelines is expected to be announced shortly by Mr. Michael Foot the Leader of the Commons.

Weather

U.K. TO-DAY

SCOTLAND and eastern districts of England will be cloudy with rain, while other areas will have scattered showers.

London, S., N.W. and N. England, E. Anglia, Midlands
Fog patches at first. Scattered showers and sunny intervals. Max. 7C (45F).

East, N.E. England, Borders
Cloudy with rain at times. Wind light to moderate. Max. 6C

Channel Is., S.W. England, Wales
Scattered showers dying out. Sunny intervals but increasing cloud later. Max. 7C (45F).

Isle of Man, N. Ireland
Scattered showers dying out. Sunny intervals, increasing cloud later. Max. 6C (43F).

Scotland
Cloudy with showers or longer outbreaks of rain. Wind S.W. moderate. Max. 6C (43F).

Outlook: Sunny intervals and some wintry showers.

BUSINESS CENTRES

	Y'day Mid-day	°C	°F		Y'day Mid-day	°C	°F
AAmsdm.	C	1	34	Madrid	F	12	54
Athens	C	16	61	Manchstr.	C	6	43
Bahrain	S	21	70	Melbourne	C	18	64
Barcelona	C	10	50	Mexico C.	C	10	50
Belfast	R	4	39	Milan	S	3	37
Belgrade	C	3	37	Montreal	C	1	34
Berlin	C	-2	28	Moscow	S	-9	16
Brmghm.	C	7	45	Munich	F	-4	25
Bristol	C	7	45	Newcastle	R	6	43
Brussels	C	4	39	New York	C	-5	23
Budapest	C	0	32	Oslo	Sn	-3	27
B. Aires	S	25	77	Paris	C	7	45
Cairo	S	21	70	Perth	F	27	81
Cardiff	F	8	46	Prague	C	-1	30
Chicago	C	-10	14	Reykjavik	F	3	37
Cologne	Sn	0	32	Rio de J'o	S	30	86
Copnhagn.	C	-1	30	Rome	S	11	52
Dublin	R	7	45	Singapore	R	31	88
Edinbrgh.	C	6	43	Stockholm	C	-1	30
Frankfurt	C	0	32	Strasbrg.	C	1	34
Geneva	C	1	34	Sydney	S	27	81
Glasgow	C	6	43	Tehran	S	10	50
Helsinki	S	-11	12	Tel Aviv	S	28	82
H. Kong	S	16	61	Tokyo	S	7	45
Jo'burg	S	25	77	Toronto	Sn	-11	12
Lisbon	S	14	57	Vienna	C	0	32
London	F	8	46	Warsaw	C	-6	21
Luxemb'g	Sn	-2	28	Zurich	F	0	32

HOLIDAY RESORTS

Biarritz	R	11	52	Majorca	F	12	54
Blackpool	F	7	45	Malaga	S	18	64
Bordeaux	C	9	48	Malta	S	13	55
Cape Tn.	C	25	77	Nairobi	S	26	79
Corfu	F	12	54	Naples	F	11	52
Dubrovnik	S	11	52	Nice	F	11	52
Faro	S	18	64	Nicosia	S	19	66
Florence	S	10	50	Oporto	S	12	54
Funchal	C	17	63	Rhodes	F	18	64
Gibraltar	S	14	57	Salzburg	F	-1	30
Guernsey	C	8	46	Tangier	S	17	63
Innsbruck	F	-5	23	Tenerife	S	15	59
Inverness	C	5	41	Tunis	F	12	54
I. of Man	F	7	45	Valencia	F	15	59

S—Sunny. F—Fair. C—Cloudy. R—Rain. Sn—Snow.

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